

New rockets mean new companies

(Industries)



BUSINESS WEEK

A McGRAW-HILL PUBLICATION

FIFTY CENTS

FEB. 22, 1958

Carnation's Alfred M. Ghormley finds
it takes lots of dollars, lots of dash
to hit national markets with one new
product after another (Marketing)



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FIGURES OF THE WEEK

GENERAL BUSINESS

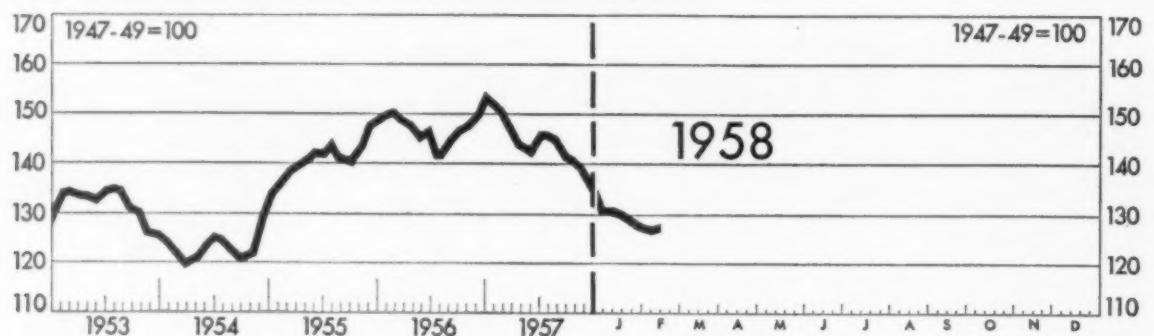
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BUSINESS WEEK INDEX (chart)

1946 Average	Year Ago	Month Ago	Week Ago	Latest Week
91.6	151.0	130.9	†127.8	*128.0

PRODUCTION

Steel ingot (thous. of tons).....	1,281	2,504	1,496	†1,445	1,459
Automobiles and trucks.....	62,880	179,835	136,505	†135,283	128,348
Engineering const. awards (Eng. News-Rec. 4-wk daily av. in thous.).....	\$17,083	\$60,866	\$39,504	\$47,510	\$52,494
Electric power (millions of kilowatt-hours).....	4,238	11,946	12,400	12,289	12,417
Crude oil and condensate (daily av., thous. of bbls.).....	4,751	7,515	6,925	6,858	6,852
Bituminous coal (daily av., thous. of tons).....	1,745	1,621	1,465	1,353	1,243
Paperboard (tons)	167,269	280,060	281,999	251,516	259,233

TRADE

Carloadings: miscellaneous and l.c.l. (daily av., thous. of cars).....	82	67	54	54	53
Carloadings: all others (daily av., thous. of cars).....	53	44	41	38	36
Department store sales index (1947-49 = 100, not seasonally adjusted).....	90	101	108	92	93
Business failures (Dun & Bradstreet, number).....	22	317	260	342	319

PRICES

Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100).....	311.9	415.1	393.4	†396.4	397.9
Industrial raw materials, daily index (BLS, 1947-49 = 100).....	††73.2	94.4	83.4	83.7	83.7
Foodstuffs, daily index (BLS, 1947-49 = 100).....	††75.4	80.7	87.3	88.2	89.1
Print cloth (spot and nearby, yd.).....	17.5¢	18.1¢	17.8¢	17.6¢	17.4¢
Finished steel, index (BLS, 1947-49 = 100).....	††76.4	173.1	181.7	181.7	181.7
Scrap steel composite (Iron Age, ton).....	\$20.27	\$53.33	\$34.33	\$37.33	\$37.33
Copper (electrolytic, delivered price, E & MJ, lb.).....	14.045¢	32.670¢	24.910¢	24.888¢	24.890¢
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.).....	\$1.97	\$2.33	\$2.21	\$2.17	N.A.
Cotton, daily price (middling, 1 in., 14 designated markets, lb.).....	**30.56¢	33.77¢	34.85¢	34.69¢	34.59¢
Wool tops (Boston, lb.).....	\$1.51	\$2.18	\$1.78	\$1.78	\$1.78

FINANCE

500 stocks composite, price index (S&P's, 1941-43 = 10).....	17.08	43.42	41.20	41.47	41.14
Medium grade corporate bond yield (Boa issues, Moody's).....	3.05%	4.46%	4.80%	†4.66%	4.65%
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate).....	%-1%	3½%	3½%	2¾%	2¾%

BANKING (Millions of Dollars)

Demand deposits adjusted, reporting member banks.....	††45,820	56,423	56,532	55,880	55,548
Total loans and investments, reporting member banks.....	††71,916	84,828	87,018	87,066	87,156
Commercial and agricultural loans, reporting member banks.....	††9,299	30,257	31,361	†30,434	30,330
U. S. gov't guaranteed obligations held, reporting member banks.....	††49,879	25,672	25,945	26,290	26,313
Total federal reserve credit outstanding.....	23,888	24,997	25,390	24,397	24,543

MONTHLY FIGURES OF THE WEEK

	January.....	1946 Average	Year Ago	Month Ago	Latest Month
Bank debits (in millions).....	††\$85,577	\$204,514	\$220,376	\$212,862	
Retail sales (seasonally adjusted, in millions).....	\$8,541	\$16,295	\$16,855	\$16,973	

* Preliminary, week ended February 15, 1958.
† Revised.

†† Estimate.
** Ten designated markets, middling 1 in.

¶ Date for 'Latest Week' on each series on request.
N.A. Not available at press time.

THE PICTURES—Cover—Leonard Nadel; 25—(lt.) I.N.P.; (rt.) W.W.; 30, 31—Grant Compton; 44—Aerojet-General Corp.; 45—(top rt. & bot.) Thiokol Chemical Corp.; 77—(top) U.P.; (bot.) Goodyear Tire & Rubber Co.; 80—Herb Kratovil; 81—(lt.) Noel Clark, (rt.) Herb Kratovil; 82—Herb Kratovil; 90, 91—Herb Kratovil; 106, 107—Leonard Nadel; 120—U.P.; 126—Sol Sanders; 140, 141—James Conklin.

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Flick a switch and your whole house is an "appliance"! This is the promise of an era that is developing astounding new products to improve housekeeping convenience and comfort.

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Governor Thomson at the shelter house dedication, tells us 'Progress must be a partnership' . . . points out Rib Mountain's ski facilities as evidence. They've been made possible by the joint work of the State Conservation Department and Wausau Civic groups. In the picture, Governor Thomson and I chat with Mrs. Warren Knowles, wife of Wisconsin's Lieutenant Governor."



"As long as I've been in the business, I've seen orders come in for White Stag sports clothes from Wausau's Palace Clothiers. I stopped by, of course, and proudly watched as Manager Ted Goertz showed one of our ski outfits to Jerry Gunderson."

Employers Mutuals thanks Mr. Hirsch for visiting us in Wausau and revealing another facet of the Wausau Story. Admittedly, we are proud of our community and the way of working it inspires. Employers Mutuals writes all lines of fire and casualty insurance (including automobile) and is one of the largest in the field of workmen's compensation. Our business is growing and we need more people to help us—especially in our sales department. If you are interested in career opportunities with Employers Mutuals' nation-wide organization, write to C. E. Smith, Sales Manager, Employers Mutuals of Wausau, Wausau, Wisconsin.

*From Rib Mountain, "the top of Wisconsin" . . .
a clear view of an amazing community spirit*

Wausau Story

by **HAROLD C. HIRSCH**, President,
White Stag Mfg. Co., Portland, Oregon

"I SAW IT the minute I got off the plane at Wausau . . . Rib Mountain, with the ski run dipping down through the clearing.

"The sight reminded me of a significant change in people's activities . . . a change that prompted my company to manufacture clothes for both summer and winter sports. This spot used to be popular only in summer. Now, as the ski run proves, people enjoy this place the year 'round. I meant to enjoy it too because I'm a skier myself. What's more, Governor Vernon Thomson was there to

dedicate the new additions to the Rib Mountain shelter house that day.

"A great celebration. I was impressed by everything I saw. Families enjoying the sport together . . . the voluntary National Ski Patrol there to help. This is Wausau, the personality and spirit of the community clearly revealed. No wonder people from Wausau are known as 'good people to do business with.' It's true of Employers Mutuals, as it is of my business . . . the design of our 'products' comes from the very life we lead."



"More than 530 children are registered in the free Ski School, sponsored by the Wausau Daily Record Herald. Dave Graebel, a Wausau business man, has directed the school since it began 11 years

ago. To help him in this annual project, he has 31 high school students (each one a graduate of this Ski School) and a staff of 3 adults who volunteer as strap tighteners and nose wipers."



"Good people to do business with"

Employers Mutuals of Wausau

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READERS REPORT

Survey Results

Dear Sir:

Reports Put On a Staider Garb [BW—Jan. 18'58, p97] impressed us as being one of the most comprehensive surveys of recent trends in annual reports that we have read. We were also gratified at your mention of Topp Industries' 1957 annual report and our use of it as a sales tool.

We feel that you and your readers might also be interested in the results of a survey we made on the reactions our readers had to our report. . . .

. . . We received replies from 500 out of approximately 4,000 people polled. . . . Our 1957 report was the most ambitious in the use of color, charts, maps, photographs, etc., that Topp Industries had ever published, yet less than 10% of the respondents mentioned cost as a negative factor in their answers. As might be expected, respondents from the financial world were somewhat more critical than our stockholders, yet 96.8% of those answering in this group considered the appearance of our report pleasing, and 88.2% rated the report . . . as excellent or above average. . . .

PETER H. STANTON

VICE-PRESIDENT
TOPP INDUSTRIES, INC.
BEVERLY HILLS, CALIF.

Dear Sir:

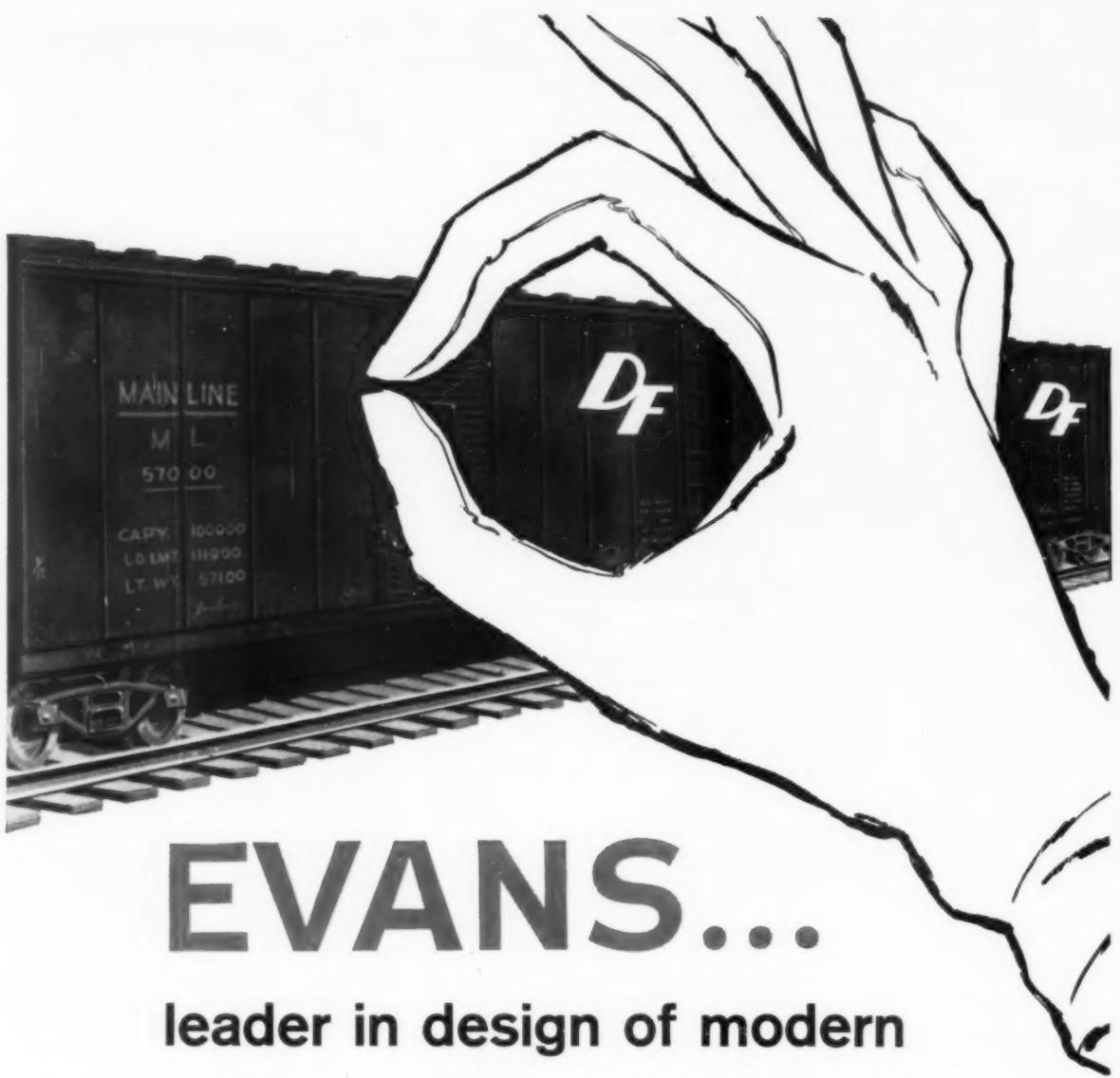
Scrutiny of some 20 annual reports prompts the following comment on your fine article [BW—Jan. 18'58, p97]: (1) The hard-sell report arouses suspicion, especially of laxness about such expenses as travel, entertainment, furniture. (2) Quarterly interim reports give the small investor a slightly better break with insiders who get new figures on their desks each morning. (3) Comparison with one or more previous years (including the balance sheet) helps, especially if notable changes are honestly explained. Backlogs are important. (4) What investors want from a report is to learn: How did I fare? If poorly, why, and what is being done about it? What are prospects for the foreseeable future?

P. S. BARROWS
DEL MAR, CALIF.

The "Ersatz Era"

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Thanks for your article Why the Consumer Is Losing His Enthusi-



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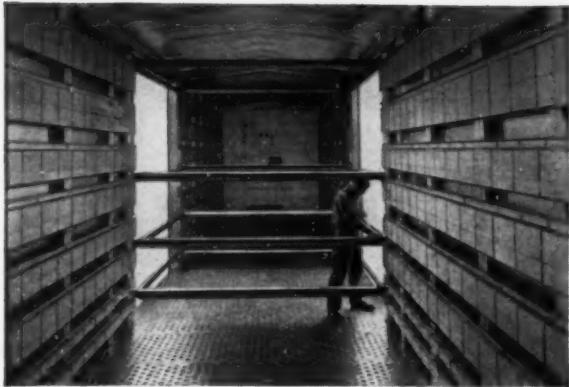
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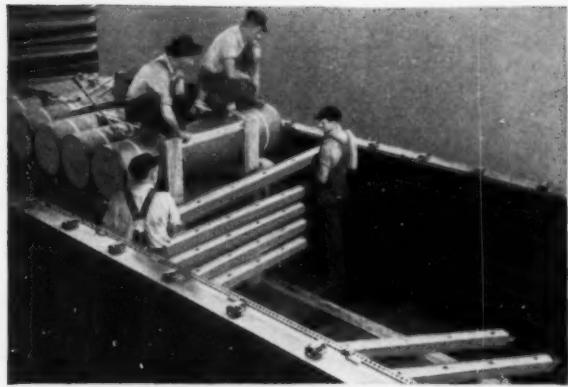
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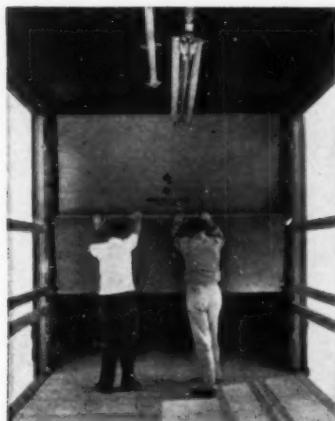
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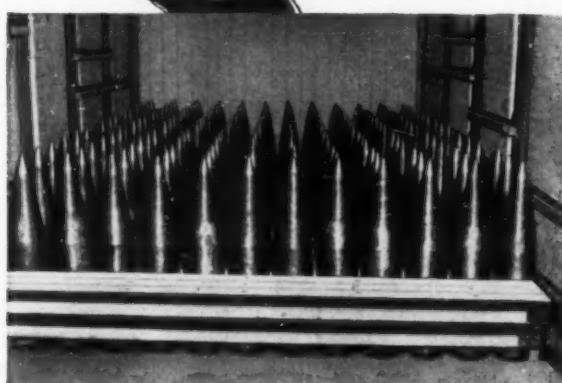
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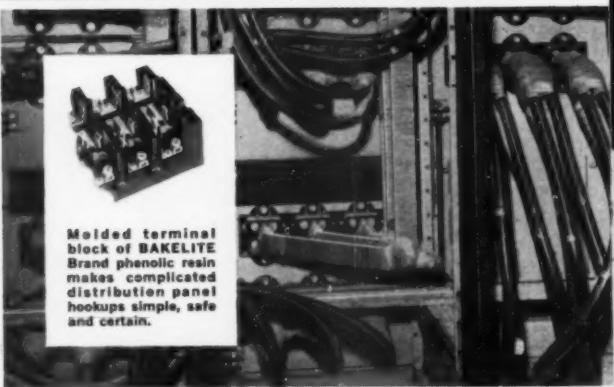
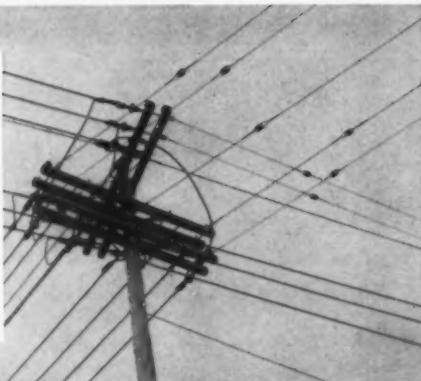
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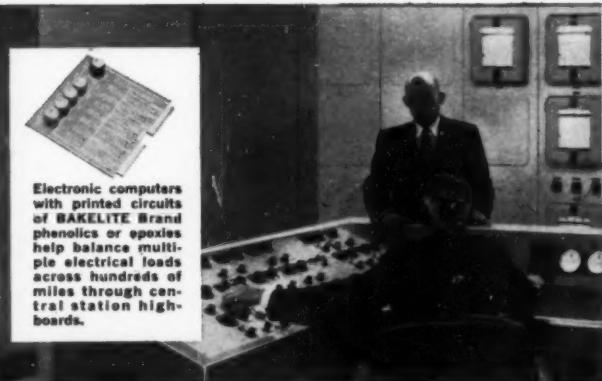
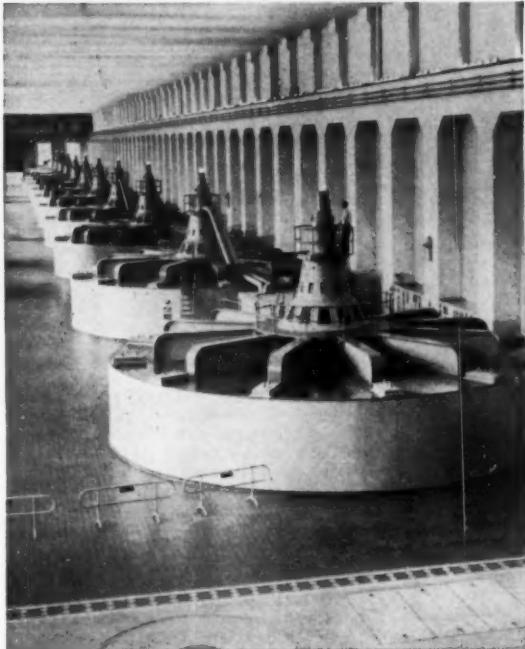
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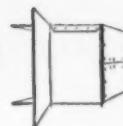
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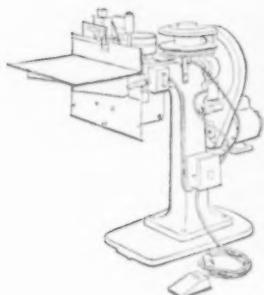
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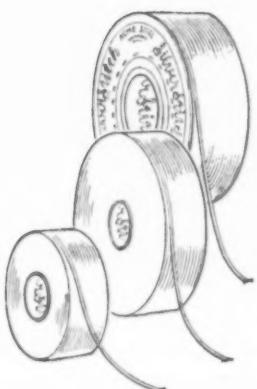
CLOSURE IDEA BULLETIN



For Users of Fibreboard Boxes



Acme Steel Model HOHT Silverstitcher closes both tops and bottoms of loaded full overlap boxes efficiently and securely. A penetrating power-driven clincher enters at the box edge behind both flaps, forms a secure stitch and retracts automatically. Model HOHT is particularly effective in closing long, narrow boxes economically. Model HOHT also fastens 5-panel folders and some double and triple slide boxes.



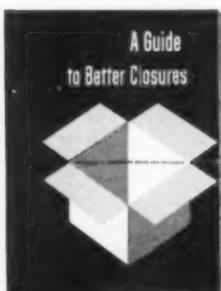
The gauge accuracy and smoothness of Acme Steel Silverstitch Stitching Wire prolongs machine life and precise level winding promotes smooth, high-speed feeding. Insure extra life and steady production for your stitching machines by ordering Acme Steel Stitching Wire in 10, 25, or 50-pound coils.

Arcuate Wire Stitching, an advanced method developed by Acme Steel, greatly increases the driving strength of stitches. Arcuate gives you trouble-free, continuous stitching ...with minimum machine adjustment...even under hard usage and sustained high-production operation. And Arcuate can be ordered on all new machines or obtained with a simple conversion kit for older stitchers.

Acme Steel recently published an informative 20-page handbook, "A Guide To Better Closures", which provides a ready source of box closure data. Send for your copy.

Call your Acme Idea Man on any problem in closing boxes. Call him at the nearest

Acme Steel office, or write: Dept. BGW-28., Acme Steel Company, Chicago 27, Illinois.



**ACME
STEEL**

WIRE STITCHING

TWO FLASH FIRES!



HERE flash ignition changed to raging inferno in minutes, engulfing this unsprinklered 3-story building in flames. Heat from the fire quickly became so intense that exploding drums of paint kept firemen from approaching to within effective fire-fighting range.

HERE

flames also erupted spontaneously, but were quickly extinguished by an overhead automatic sprinkler system. Commented Laurance Bowen, Jr., Vice-President of Pecora, Inc., 96-year old Philadelphia, Pa. calking compound and adhesives manufacturer, "If we had not had Grinnell Sprinklers, our entire main building would probably have gone up in flames - with several hundred thousand dollars in damage, not to mention loss in production."



There is just no substitute for *automatic* fire protection. Night or day, Grinnell Automatic Sprinklers stop fire . . . at its source! Their fast and effective operation is the result of years of research, design improvement, and careful manufacture.

Every Grinnell Sprinkler System, moreover, is *engineered* and *shop-fabricated* whenever possible for quick, expert installation—with minimum disruption to normal routine.

Grinnell Automatic Sprinklers make possible big insurance savings, too . . . with reductions in insurance savings often between 50 to 90%.

There is a difference in sprinkler performance and service. Write to Grinnell Company, Inc., 277 West Exchange St., Providence, R. I.

GRINNELL

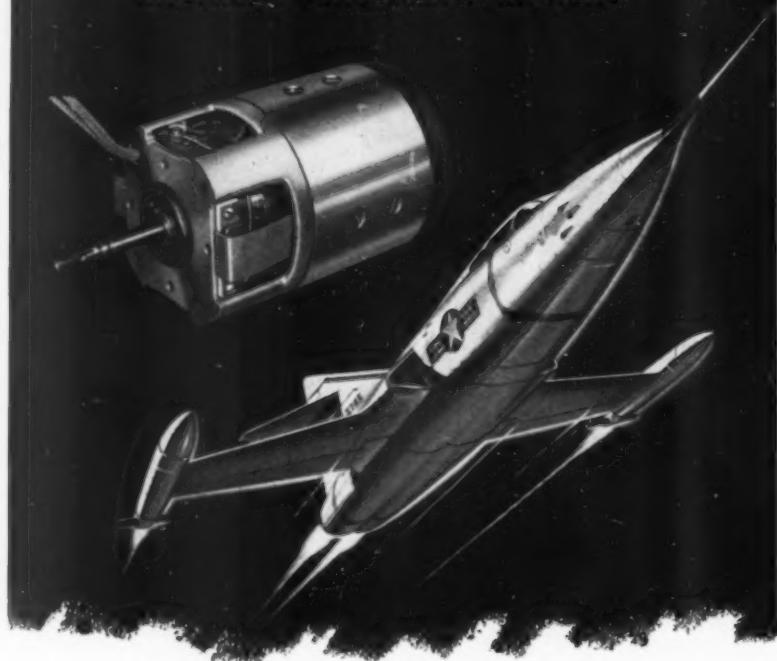
WHENEVER FIRE PROTECTION IS INVOLVED



Manufacturing, Engineering, and Installation of Fire Protection Systems since 1870

Passes Tests With Flying Colors

MILITARY AIRCRAFT MOTOR



...equal dependability for your product

One of the recent Lamb Electric developments is a motor to drive submerged pumps on military aircraft—for transfer of fuel from reserve to engine tanks.

For such an important application, motor reliability far beyond that normally called for was needed. To insure this degree of reliability in its actual operation of driving the submerged pump, test requirements for the motor were exceptionally rigorous.

As the result of advanced engineering and design, greatly increased brush life, and ability to operate at extremely high temperatures and withstand severe shock tests, the motor passed gruelling tests with flying colors.

The skill and experience exemplified here is available to your company to provide dependable power for your new or redesigned products.

THE LAMB ELECTRIC COMPANY • KENT, OHIO

A Division of American Machine and Metals, Inc.

In Canada: Lamb Electric—Division of Sangamo Company Ltd.—Leaside, Ontario.

Lamb Electric
SPECIAL APPLICATION
FRACTIONAL HORSEPOWER MOTORS



Aircraft de-icing
pump motor.



Capacitor-type motor
for wire recorder.



Explosion-proof
vacuum unit.

asm For Goods [BW—Feb. 1'58, p46]. I disagree with your No. 1 reason. Here's what No. 1 should be:

The consumer has had a decade since the end of World War II to become disgusted with the product quality of most goods. By now, he's gotten what he wants—in fact, he's replaced it two or three times. And his pocketbook is getting bored with the Ersatz Era, in more ways than one.

You are also mistaken about the chrome-plated era. We will not have touched it until Detroit puts out completely chromed cars, with just a touch of paint here and there to add distinction. . . .

J. A. DEPASQUALE
SCHEENECTADY, N. Y.

Another Installation

Dear Sir:

I have the article entitled, Brewing a Drink of Sea Water is Easy But Still Costly [BW—Jan. 11'58, p132], and found this to be very interesting.

There are several additional points which were not included in this article . . . I refer specifically to the Pacific Gas & Electric Co. installation at Morro Bay, California. While this is not an installation for producing drinking water, it is unique in that it is the first installation of its kind whereby the boiler water make-up is provided from sea water and the final product from this equipment has a much higher purity than most drinking water. . . .

The evaporator equipment installed in the Morro Bay plant was designed and built by the Lummus Co.'s Heat Exchanger Division which has recently been purchased by Yuba Consolidated Industries, Inc. . . .

R. A. BECK
VICE-PRESIDENT—SALES
YUBA HEAT TRANSFER DIVISION
HONESDALE, PA.

Anti-Particles

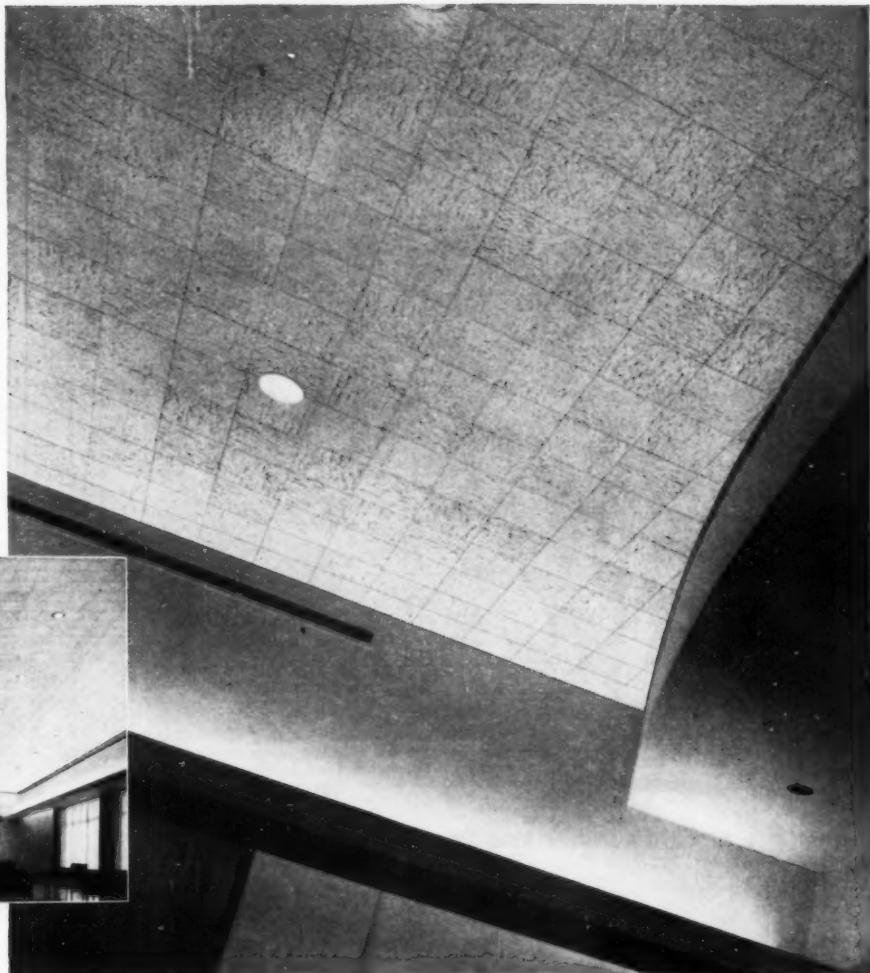
Dear Sir:

In your article How to Fall Into Space [BW—Feb. 8'58, p51], the statement is made that the so-called anti-particles should have a negative gravitational force. This is not the case. It was reported in the journal Science of December 28, 1956, that these particles would have the same gravitational characteristics as normal particles. Particle and anti-particle do not merely disappear on contact but are annihilated with a great release of

The stonelike texture of Permacoustic ceiling tile harmonizes with virtually any building material.

The Permacoustic ceiling in the auditorium of the Mutual Benefit Life Insurance Company's home office building assures correct hearing conditions, enhances architectural beauty.

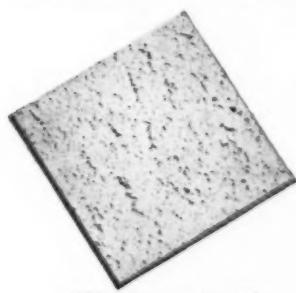
ARCHITECT:
Eggers & Higgins,
New York, N.Y.



For Noise-Quieting and Decorative Beauty

MUTUAL BENEFIT LIFE

installed Johns-Manville Permacoustic® Ceilings



J-M Permacoustic ceiling panels assure quieter working conditions.

The J-M Permacoustic panels in ceilings throughout the new twenty-story Mutual Benefit Life Insurance Company building, Newark, N.J., provide a stonelike fissured surface with great architectural appeal. Here is a decorative acoustical tile suitable for either modern or traditional architectural design.

Permacoustic ceilings soak up noise like a sponge soaks up water. They keep noise from spreading. The result is comfortable quiet and an increase in business efficiency.

Made of noncombustible mineral wool fibers, Permacoustic ceilings reduce fire hazard. They help safeguard building investment costs.

Johns-Manville's staff of acoustical engineers, located in principal cities, will gladly make analyses and give recommendations on your acoustical problems.

For a free copy of booklet "Sound Control," write Johns-Manville, Box 158, New York 16, N.Y. In Canada, write 565 Lakeshore Road East, Port Credit, Ontario.



JOHNS-MANVILLE

JOHNS-MANVILLE
JM
PRODUCTS



**SEMI-CIRCULAR
WASHFOUNTAINS
SOLVE A
COLUMN AREA
PROBLEM**

At top of page, new bearing ring plant of The Fafnir Bearing Company of New Britain, Conn., at Newington, Conn. Below is view of locker and washroom.

Design and construction by The Austin Company.

Note Use of Both Circular and Semi-Circular Bradleys

In this new Fafnir bearing ring plant, wash-up facilities are located in the locker-room. Note, too, that the area where a column is located is not wasted. Two Bradley *semi-circular* Washfountains, back to back, solved the problem. Ordinarily the semi-circular fixtures are used in narrower rooms and are installed at wall.

With all Bradleys, fewer piping connections are required—just three to serve 8 to 10 persons. Space is saved and water consumption greatly reduced because each Washfountain, while serving groups, uses no more than an individual wash basin. And with foot-control, water is cut off immediately foot is lifted from the control ring at base.

There are no faucets to manipulate or maintain. Hands need touch nothing but the clean tempered water coming from the central sprayhead.

For new buildings—for extensions to present plants, and for modernizing old washrooms—you get greater economy and user satisfaction with Bradleys.

For dimensions and complete specifications, write for Catalog 5601. BRADLEY WASHFOUNTAIN CO., 2341 W. Michigan St., Milwaukee 1, Wis.



Write for
Catalog
5601

BRADLEY
washfountains

Distributed Through Plumbing Wholesalers

energy. For instance, if a pound of matter and anti-matter met the resulting energy if harnessed would provide electricity for the entire country for three years. . . .

LANCE W. SMALL
YONKERS, N. Y.

* The problem centers around use of the word "negative." Admittedly it's ambiguous, but in this case we meant it to be the opposite of the normal gravitational force.

A Car Is Like a Woman

Dear Sir:

If the depth boys would have thought of it they would have subsequently found that car owners think of their cars as women. Some men prefer the petite, sensible and charming type that they can find in Europe to the big, blowzy, chrome covered (floozies) that Detroit is trying to assign us.

These same men become rather attached to what they have and prefer to stay with a good thing rather than divorce it to marry a new face very year.

FRANK L. DAHL

* Reader Dahl's letter is latest of a batch of mail from readers echoing same viewpoint. That Detroit is more seriously regarding the small car, see BW—Jan. 11'58, p78.

Not Willing to Pay

Dear Sir:

I was interested in your story about railroad commuter service [BW—Jan. 18'58, p148]. To me, there is just one trouble with this service. The commuters are unwilling to pay what it costs and they are supported by the politicians and labor unions.

I have before me a C&NW Ry. Co. suburban time table dated 1902 and as with the current time tables, it shows the fares for different classes of service at various stations running northerly from Chicago.

The fare to Milwaukee, except for tax, is about the same as it was in 1902. . . . The cost of operating an automobile has increased that much in the last 20 years. . . .

I personally think that the short suburban hauls up to 6 or 8 miles should be handled by some other form of transportation and the longer hauls supported by those who ride the trains rather than by the taxpayers at large. . . .

L. JERRARD

WINNETKA, ILL.

Another example of

CHEMICAL
PROGRESS

protects

NEW SILICONE RUBBER CURES AT ROOM TEMPERATURE;

jet aircraft against extreme heat

Working in a field they pioneered, G-E silicone chemists have developed a new type of silicone rubber that cures at room temperature within two minutes or in up to 48 hours if necessary.

The unusual temperature stability of G-E RTV (room-temperature vulcanizing) Silicone Rubber (-70° to 500°F.) makes it ideal for in-place sealing and caulking in high-altitude aircraft and for "potting" electronic assemblies to prevent displacement and vibration. Its phenomenal dimensional accuracy has led to its use in taking dental impressions and making molds for low-cost tooling. Impressions made with it, in atomic laboratory studies of "hot" material, record with extreme accuracy minute dimensional changes and surface imperfections caused by irradiation.

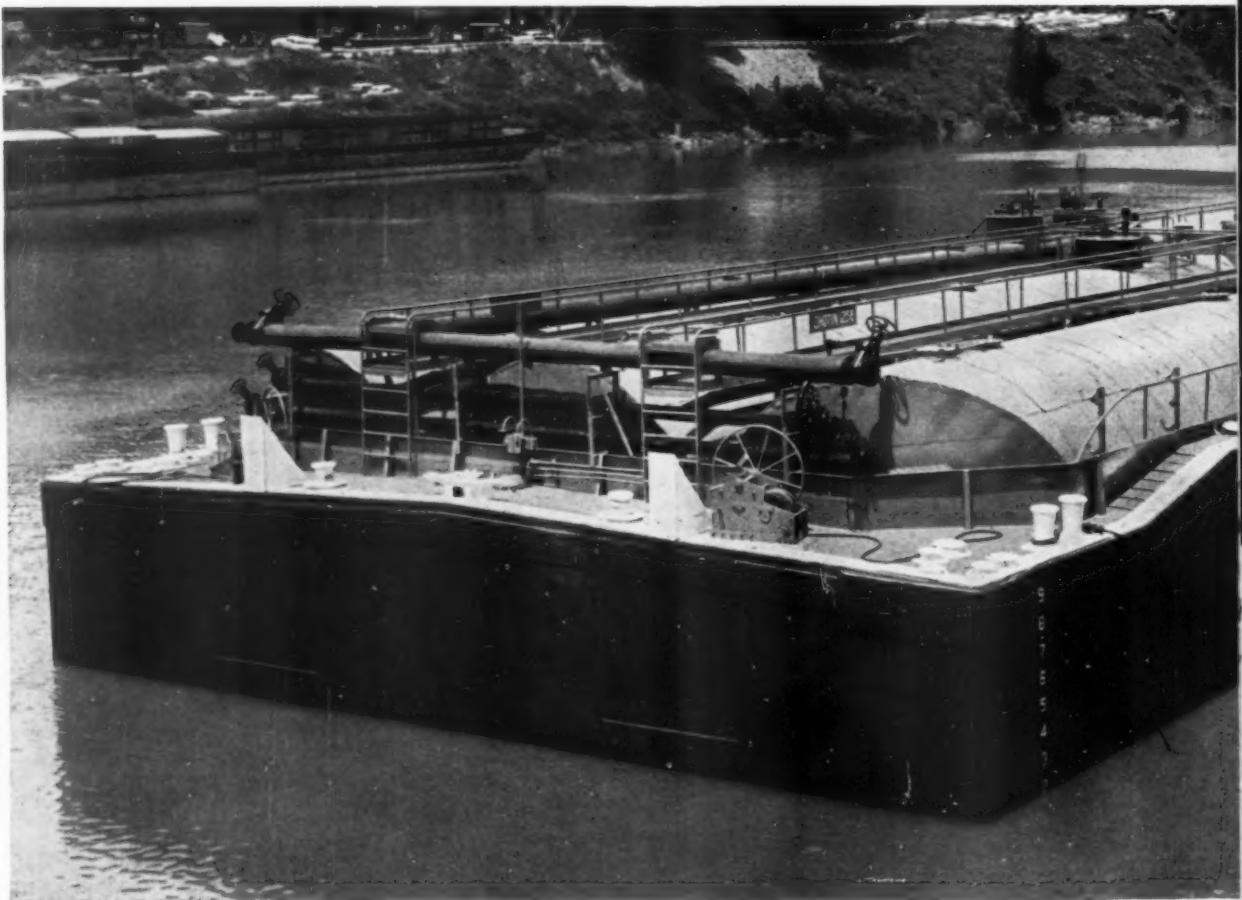
For data on new G-E RTV Silicone Rubber, write Dept. SPD, CHEMICAL and METALLURGICAL DIVISION, General Electric Company, Waterford, N. Y.

Progress Is Our Most Important Product

GENERAL  ELECTRIC

For whatever you make . . .

**N-A-X[®] HIGH-TENSILE STEEL
MEANS LIGHTER WEIGHT
WITH LONGER LIFE**



Light weight and shallow draft make the ideal commercial river barge. Thanks to the inherent qualities of N-A-X HIGH-TENSILE steel, this river barge designed and built by Nashville Bridge Company, Nashville, Tennessee, offers a weight reduction in excess of 10% over mild carbon steel—plus longer life and increased payload capacity with shallower draft.

Operators like the way weight-saving N-A-X HIGH-TENSILE improves barge towing efficiency—less draft when loaded; less dead weight to pull when empty. That means savings on operating costs all the time. And, again thanks to N-A-X HIGH-TENSILE, barge operators get more resistance to corrosion. For this manufacturing job, like so many others, N-A-X HIGH-TENSILE steel provides desirable lightness with greater durability and strength.



This barge, built by Nashville Bridge Company, hauls hot asphalt between Baton Rouge and other points along the Mississippi-Omaha River system. Both the barge hull and the cargo tanks are made of N-A-X HIGH-TENSILE. Weight reduction: in excess of 10% compared with mild carbon steel.

Check These Important Advantages for Your Job:

The N-A-X HIGH-STRENGTH steels—both N-A-X HIGH-TENSILE and N-A-X FINEGRAIN—compared with carbon steel, are 50% stronger • have high fatigue life with great toughness • are cold formed readily into difficult stampings • are stable against aging • have greater resistance to abrasion • are readily welded by any process • offer greater paint adhesion • polish to a high luster at minimum cost.

Although N-A-X FINEGRAIN'S resistance to normal atmospheric corrosion is twice that of carbon steel, N-A-X HIGH-TENSILE is recommended where resistance to extreme atmospheric corrosion is important.

For whatever you make, from steel shop boxes to steel river barges, with N-A-X HIGH-STRENGTH steels you can design longer life, and/or less weight and economy into your products. Let us show you how.



N-A-X Alloy Sales Division, Dept. BW-2

GREAT LAKES STEEL CORPORATION

Detroit 29, Michigan • Division of



N-A-X Alloy Sales Div., Dept. BW-2

Great Lakes Steel Corp., Detroit 29, Michigan

- Please send me 12-page illustrated technical catalog on N-A-X HIGH-STRENGTH steels.
- Please have your representative contact me.

Name _____ Title _____

Company _____

Street _____

City _____ Zone _____ State _____

HOW HERCULES HELPS...

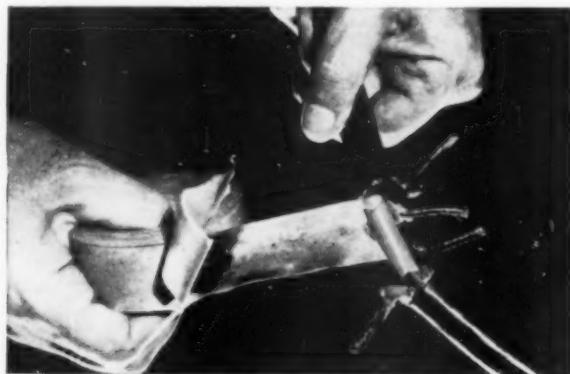


MAINTAIN QUALITY STANDARDS—For generations "Evenflo" baby bottles have been a recognized leader in their field. Now Pyramid Rubber Company uses Hercules Hi-fax® high density polyethylene to mold "Evenflo" plastic bottles with even more advantages. Unbreakable, of

course, Hi-fax bottles are acceptable by FDA for direct contact with food, can withstand the high temperatures necessary for sterilization. These are just a few reasons why Hi-fax is finding ever increasing use in packaging, toys, fabrics, wire coating and pipe.



ENCOURAGE YOUTH—Pictured with Hercules Vice President Paul Mayfield are winners in the National 4-H Entomology Awards Program. Agricultural Chemicals Division thus plays a part in the development of farm and civic leadership.



CREATE NEW PRODUCTS—Rubber and Asbestos Corporation depends on two Hercules tackifying agents for the unique characteristics of its new "Tackmaster" pressure-sensitive film used in the tape shown. The Hercules materials help provide the high tack, quick stick and grab necessary in such films, plus easy separation from the protective release paper.



G58-2

HERCULES POWDER COMPANY

INCORPORATED
900 Market Street, Wilmington 99, Delaware

CHEMICAL MATERIALS FOR INDUSTRY

HERCULES

BUSINESS OUTLOOK

BUSINESS WEEK
FEB. 22, 1958



This slump in production can't last so very long IF consumers continue to buy as they appear to have done in January.

Note well the "if." For, though retail sales are estimated to have been at a very satisfactory level last month, some of the totals have an unrealistic ring. And purchasing power unquestionably is shrinking.

Volume of all retail stores (after allowing for seasonal variations) was better in January than in any month during the fourth quarter. It topped a year ago by about 4% and came close to 1957's best levels.

This is the preliminary figure shown by the Dept. of Commerce's flash report on last month's store volume.

The results, to be sure, were a little spotty. Durable goods lagged a year ago by 2%, while nondurables ran ahead about 7%. Yet the showing, if later checking bears it out, is in the main gratifying.

Consumer spending for food, what with prices rising fairly sharply again, may well have run 12% over a year ago for January.

But department stores' reports hardly certify the reported 4% gain in general merchandise outlets. And it isn't easy to find apparel dealers who will agree with the 10% advance for their lines.

Gasoline service stations—beset by price wars and disappointing demand—will question Commerce's estimate of a plus of 8½%.

These Commerce Dept. figures on retail sales have, in the past, proved generally reliable for trend. Moreover, they have recently been somewhat refined. If they still leave anything to be desired, the reason would be lack of funds to do the job even more accurately.

So, generally speaking, the assumption must be in their favor.

—•—

Lagging volume in automotive lines (the Commerce Dept. puts them about 4% behind a year ago in January) may simply indicate that consumers are reluctant now to go in debt for big-ticket items.

They can, if they shop, buy used cars cheaper than a year ago.

But lower used-car prices penalize new-car sales: Trade-ins don't bring so much as they did last winter. Pacific Finance Corp. suggests that trade-ins average \$200 less than a year ago and new-car prices perhaps \$100 higher. That boosts downpayments or carrying charges—or both.

Income tax time, now just around the corner, is bound to be more than the usual drag on consumer buying of big items for a while. We'll be paying on record 1957 incomes—many of us with reduced 1958 means.

—•—

Metal-using industries will get some help from military orders, but there won't be much of a revival until autos and appliances pick up.

The latest Federal Reserve index number for major consumer durables places output 17% below last year's high and 30% under the postwar top.

Metal fabricating generally has fared a little better than output of durable goods destined for the consumer market. Physical volume has slid

BUSINESS OUTLOOK (Continued)

BUSINESS WEEK

FEB. 22, 1958

about 11% from its 1955-57 high (against a 14% drop in 1953-54).

Machinery output, however, nearly matches the dip in consumers' hardgoods—down 15% against its 16% decline in the 1953-54 slump.

Factory production over-all—down 9½% from its peak—is bolstered, of course, by softgoods, which have had little or no recession.

Foods, for example, are maintaining all-time high levels.

And chemicals (which must class as softgoods though mostly used by industry rather than consumers) have declined only moderately. Even paper held fairly well through January, though its trough is deepening.

Textiles and apparel, as you would expect, have been making the poorest showing among the softgoods lines.

—•—

Civilian employment at present is about 2¼-million higher than at its 1954 low (actually, better than 2½-million higher with due allowance for changes since made in the method of compiling the figures).

This, with higher pay, naturally helps to support purchasing power.

The same is much less true in manufacturing. Factory employment is very close to its 1954 low—although those employed now are making about \$10 a week more on the average than four years ago.

Mainly due to the disproportionate drop in manufacturing (where males dominate the work force), you get surprising changes in the job market.

Usually it is assumed that women are the first to be laid off.

But, in all sorts of work (including agriculture), there are 180,000 more women employed now than a year ago; male employment, on the other hand, is half a million less than at this time last year.

By the same token, female unemployment has risen only from 5.2% a year ago to 6.3% now; for men, the rise has been from 4.8% to 6.9%.

—•—

Extreme cold over much of the country the last few days should have helped the oil industry reduce stocks of home-heating fuel.

However, it wasn't enough to ward off another price cut in Ohio.

And severe weather, which made driving anything from disagreeable to actually hazardous, did nothing to improve gasoline's position.

Disappointing 1958 demand for petroleum products along with topheavy supplies are bringing new cuts in refinery runs.

But, in a situation apparently verging on chaos in prices, McGraw-Hill's Petroleum Week urges that "crude production and refinery runs should be reduced at least 400,000 bbl. a day for about six weeks."

Such cuts, the magazine says, "would cause fewer hardships on the whole industry than would larger cutbacks later on."

Oklahoma, one of the producing states that has done relatively little about pinching back its crude oil flow, was urged this week by the state association of independent oil men to cut "substantially" at once. The state's regulatory agency is to take up this proration request on Tuesday.

Contents copyrighted under the general copyright on the Feb. 22, 1958, issue—Business Week, 330 W. 42nd St., New York, N. Y.



Evening gown designed by Helena Barbieri for Modern Couture

SUDDENLY IT'S RAYON EVERYWHERE YOU LOOK

With artistry of rare degree, textile manufacturers use today's wonderful rayon fibers to create products as lustrous as the moon or practical as sixpence: ever-better ball gowns and tires, carpeting and drive-belts, drapes and raincoats.

Last year these inventive applications were reflected in rayon production measuring well over the combined total for all other man-made fibers. Name the characteristics you want; rayon producers engineer them. New processes, like solution-dyeing of yarns, give fabrics that are richer but more serviceable . . . easily washable yet color fast . . . with more dimensional stability . . . and greater uniform durability.

Only chemicals and other materials having exceptional purity can be used to produce rayon. Our Columbia-Southern caustic soda performs three different, vital steps in converting wood chips and cotton linters into mill-ready rayon. Many of the painstaking techniques involved in the manufacture of this special "rayon grade" caustic carry over into production of Columbia-Southern's regular forms of this tremendously versatile alkali.

A leading merchant producer of chlorine, Columbia-Southern has long ranked as a pacesetter in alkalies and related chemicals that help make better products faster, more safely, with greater savings.

Columbia-Southern Chemical Corporation, One Gateway Center, Pittsburgh 22, Pennsylvania. Offices in principal cities. In Canada: Standard Chemical Limited and its Commercial Chemicals Division.

COLUMBIA - SOUTHERN CHEMICAL CORPORATION

A Subsidiary of Pittsburgh Plate Glass Company

The Impala Convertible with Body by Fisher. Safety Plate Glass means better seeing in all new Chevies.



YOU'LL GET A REAL CHARGE out of the way this '**'58 CHEVROLET** responds to your touch, the slightest hint of command. Here's vigorous new V8 performance that's enough to perk up anybody's pride. Here's the kind of eager-to-please handling and polo pony response that lets you know you're the boss, right from the start!

That's a wonderful feeling, you know. But it doesn't happen by chance; it's a careful blend of qualities that demands real engineering talent.

Very few cars in any price range even come close to Chevy's precise, clean ease of handling, the beautifully balanced way it clings to any road, the crisp accuracy of its steering, the supple surefootedness of its Full Coil suspension.

There's never been another list of tremendous advances like the '58

Chevrolet's Level Air 100 percent air springs*, its low-slung X-built frame, its unprecedented Turbo-Thrust V8 engines*, its totally new bodies. But the biggest advance in the new Chevrolet is the whole new feeling of ease and competence and security. You won't know how significant that is till you try it—and that's something you ought to do this week! . . . Chevrolet Division of General Motors, Detroit 2, Michigan.

*Optional at extra cost.



Now Politics Deals the Cards

● Anti-recession policy of both parties will from now on be more and more set with coming elections in view, as economic arguments take back seat.

● Eisenhower's optimistic statement—a political move that surprised cautious economists—signaled change; but Democrats are busy aiming their artillery, too.

● Administration has more than expected employment upturn behind its hopeful view; it's banking also on healthy state of housing, and favorable retail trade.

The politicians are taking charge of anti-recession policy.

Policymaking from now on will be increasingly in the hands of men who keep an eye on winning elections, less in those of their economic advisers.

This is true of both Republicans in the White House and Democrats in control of Congress.

It's the explanation for a new tension in Washington since Pres. Eisenhower's foray into economic forecasting last week (BW—Feb. 15 '58, p47). What to do about the recession is now a practical problem, pressing for a solution. Academic discussions will give way to political slugging.

• **First Round**—The President's prediction that March would mark the beginning of the end of the downturn signaled the change. The prediction was a political move chiefly, only incidentally a reading of the business outlook.

Its purpose was to put Democrats on the defensive, and to keep restless Republicans in line.

V.P. Nixon drew the moral for Republicans: He accused the Democrats of betting on a depression in hopes of winning the November elections.

Within hours of the President's optimistic statement, Democratic leaders of Congress counterattacked with a 10-point anti-recession program, geared chiefly to increased spending. They backed this up with an announcement from Speaker Sam Rayburn that a tax reduction bill is being put together for possible use later.

• **Pressure of the Calendar**—The calendar shows why leaders of both parties have to decide quickly what to do.

The seasonal spring upturn begins to show each March, and is measurable by the time statistics are released in April. If the decision is made only then that major new steps should be taken—either increased spending or tax reductions—it will take a while to get the legislation through Congress, and some three or four months longer before the economic effects can be judged.

By that time, Congress will be adjourned and it will be too late to do anything but defend voting records. So—whatever benefits candidates hope to get will depend on what is done in the next few weeks.

• **Rival Strategy**—The Administration plan is to keep up a continuous flow of optimistic announcements for a few more weeks. Then it will decide one way or another about further moves.

The Democratic strategy already assumes that the spring news will fail to point to an upsurge, and that stronger measures will almost automatically be called for.

I. What Eisenhower Meant

The new phase began on a note of confusion stemming from the wording of Eisenhower's statement. The language was guarded. It said there was "every indication" that March "will commence to see the start" of a pickup in employment. Then came the sentence that seems likely to haunt Administration strategists for months to come: "That should mark the beginning of the end of the downturn in our economy."

The press corps took this to mean

that Eisenhower was predicting a general business upturn, to begin in March. Administration leaders were surprised. Treasury Secy. Robert B. Anderson, for one, came back to Washington from an out-of-town speaking engagement bearing newspapers headlining the upturn prediction. Eisenhower's economic advisers—who had been shown the language but had not written it—were chagrined. They are now trying to set the Administration's real views straight.

• **What the Experts Expect**—They stand by the strict wording of the statement: They confidently expect an increase in employment will be reflected when statistics for March are released in mid-April. And they think that for purposes of political strategy, it is justifiable to say this "should mark the beginning of the end."

But they do not think business will show a rise in March.

"Nobody around here expects such a miracle," one White House aide puts it. "You can't expect a movement as broad as this to bounce back on the showing of only one indicator."

Some employment rise is expected every March because of seasonal expansion of construction and farming.

• **Risk**—Thus Eisenhower's forecast about rising job opportunities could be borne out without its having any particular significance so far as the underlying trend is concerned. Only a decline in unemployment far greater than usual at this time of year will dampen Democratic sniping, and anything less than a normal decline will unloose a furious new assault on the Administration.

This risk is so obvious that some of the Administration's economic experts—those furthest removed from the political battlefield—are uneasy over the whole affair. On professional grounds, they object to pinpointing any particular month or any particular indicator as holding the key to the future. Moreover, they avoid specific, dotted "I" forecasts in their own work, and hate to see their most distinguished client get into the business.

• **Reason**—But the economists didn't have the last word; the political strategists did.

The basic reason for issuing the statement was the 1.1-million rise in January unemployment, which had just been revealed. This was at the extreme

high range of what Administration analysts had expected. White House strategists knew Democrats were making big anti-recession plans of their own; they decided on a reassuring statement from Eisenhower as the Administration's best defense. The President concurred and took an active part in preparing the release.

It was drawn up Tuesday, handed to reporters Wednesday and then read by the President before TV cameras.

II. Democrats' Proposals

The announcement did steal a day's headlines from the Democrats and took some glitter from the 10-point program announced the following day by Senate Majority Leader Lyndon B. Johnson.

Here are some of the things Johnson said Senate committees are working on as a means of checking the rise in unemployment: a bill aimed at increasing the pace of homebuilding; direct Federal Reserve loans to small businesses; a post office construction bill; authorization for extra shifts of workers on public works projects; military housing projects in areas where unemployment is particularly acute.

Hearings began this week on part of this program: increased highway spending. Sen. Albert Gore (D-Tenn.) called Democratic governors before a subcommittee to get their ideas on how more dollars can be pumped out.

• **Tax Cutting**—Speaker Rayburn and Rep. Wilbur Mills (D-Ark.), chairman of the House Ways & Means Committee, are spearheading Democratic tax reduction strategy. They are shooting at March or April as the time to pull a bill together, if the recession does not show signs of ending.

They are thinking in terms of a \$5-billion cut and are leaning toward a split in the first-bracket tax as a means of giving low-income groups special relief. As a direct business stimulant, they'd also like to end the transportation excise tax.

III. Weighing the Evidence

There's some tax thinking going on in the Administration, too, but officials don't stress it. One describes it as merely "an intellectual exercise." Actually, Treasury technicians are keeping a number of proposals under scrutiny and could put a package together on short notice.

But the impression left by Administration spokesmen is that they aren't interested in a specific tax cut program because they still don't think one is going to be required. They are still hoping that before Congress comes to that, the recession will be over.

Top Administration spokesmen—with three members of the Cabinet

leading off—struck this same cheerful note in Lincoln Day speeches last week.

They were drawing direct beads on their Democratic critics, but it's increasingly apparent that some Republicans need a dose of White House gospel, too. Behind the scenes, GOP leaders are appealing for stronger recession measures.

• **Bright Spots**—There are two bright spots in the business picture that the Administration is counting on more heavily than on an employment rise in March, on the ground that these signs are more indicative of basic trends. The most important of these is housing—on the way up, and moving strongly. Private starts in January rose to 64,200 for a seasonally adjusted annual rate of 1,030,000—the highest since August.

Eisenhower called attention to the healthy state of housing in an unusual statement from his Thomasville, Ga., vacation hideaway. He pointed to a 14% rise in applications for FHA-insured mortgages in January over December; applications are now running 64% above a year ago.

Federal Housing Administration officials report a marked easing in the supply of mortgage credit, and have added 100 persons to process the increasing flow of applications. Making Presidential news of such events is part of Administration strategy to get the most possible mileage out of every improvement in business.

Along with housing, retail trade stays persistently on the cheerful side, despite disappointing auto sales. Totals are running higher than a year ago, and January—seasonally adjusted—was up over December.

• **Bad News, Too**—But the bad news keeps coming in, too, and Administration strategists know there will be more of it. The January slump in the Federal Reserve Board's index of industrial production—down three points—will probably be continued in February.

• **Burns' View**—In this mixed situation, one of the economists most respected by the Administration—Prof. Arthur F. Burns of Columbia University—comes in with a warning. Burns was chairman of Eisenhower's Council of Economic Advisers until 1956, and played a leading role in policies that halted the 1953-54 recession.

In a New York talk, Burns said the present recession is likely to continue "at least for some weeks or months." He added that he could detect no compelling evidence pointing to an upturn in March, and called for stepped-up government programs, if the decline continued. He mentioned a temporary tax cut of \$4-billion or \$5-billion or increased public works spending as the type of things that would "end the decline and restore full employment."

Changing

LAST WEEK, Sen. Harry F. Byrd (D-Va.) decided to retire from the Senate. And that means the end of a regime of conservative chairmen who have run the Senate's powerful Finance Committee since before World War II.

Byrd, the self-appointed watchdog of federal spending for 20-odd years, isn't seeking reelection in the fall. If the Democrats retain control of the committee, Sen. Robert S. Kerr, Oklahoma oil millionaire and a New Dealer, will succeed Byrd.

With Kerr in charge, the committee will veer from the course steered by Byrd and his conservative predecessors: Pat Harrison (D-Miss.), Walter F. George (D-Ga.), Eugene Millikin (R-Colo.), and the late Robert A. Taft, who though never chairman was among those who dominated the committee.

The conservatives will lose not only Byrd on the committee, but two Republicans as well: Sen. Edward Martin of Pennsylvania and Sen. William Jenner of Indiana, who have announced they will not seek reelection.

• **Chairman Apparent**—Kerr is an educated man, a Southern Baptist, and a teetotaler. These assets, plus a gift for oratory, carried him to the governorship of Oklahoma in 1943. He was the keynote speaker at the 1944 Democratic convention in Chicago that nominated Franklin D. Roosevelt to his fourth term.

Since coming to the Senate in 1949, Kerr has exerted a growing influence in Finance Committee affairs and has become a top gun in Democratic politics. He was the first to come to the support of Pres. Truman after the firing of Gen. Douglas MacArthur, and he was one of the first in Congress publicly to attack Pres. Eisenhower and his policies.

Some of Kerr's colleagues say he has one of the sharpest minds in the Senate—with a tongue to match.

• **New Attitude**—The change from Byrd to Kerr will be dramatic.

Byrd has been an admirer of Pres. Eisenhower and has worked closely with the Administration on fiscal matters. But he cooled toward the Administration when it stepped up spending, and he is leading the Congressional opposition to the Treasury's request for a \$5-billion increase in the debt ceiling. Byrd maintains that, based on the case it made, the Administration can get by with a temporary increase of \$3-billion. Kerr says even \$5-billion isn't enough.

Under Kerr, the Administration can expect no kid-glove treatment. The 61-year-old Oklahoman last year charged that Eisenhower "has no fiscal brains." Currently he is characterizing the Presi-

the Senate's Finance Watchdog



Sen. Harry F. Byrd



Sen. Robert S. Kerr

dent as a combination "Pres. Hoover and Mr. Micawber"—in reference to last week's forecast of an economic upturn in March (page 23). Kerr points out that Pres. Hoover kept saying that "prosperity is just around the corner," while Dickens had the perennially unemployed Mr. Micawber cheerily predicting that "something is going to turn up."

• **Finds His Own Facts**—Kerr is at his best at cross-examination. He is disarming to the witness who has not seen him in action before, the witness who makes the mistake of believing that he has only a Plains politician as an adversary. Kerr arrives at the committee bench loaded with facts as well as prejudices.

Take for example the recent Finance Committee hearing on Treasury Secy. Robert Anderson's request for a \$5-billion increase in the debt limit.

Kerr chided Byrd for taking at face value the Administration's optimistic outlook for revenues and expenditures. Kerr himself challenged the Administration's prediction of a \$2-billion increase in revenues in fiscal 1959 and of a cut in non-defense spending. He told Byrd that it was over-optimistic to conclude that only a \$3-billion debt increase was enough.

"There are no figures I could take except those that were presented by the Treasury Dept.," Byrd said.

Kerr replied that he himself was not so limited; he had his own estimates of revenue and outgo. Kerr expects a deficit of \$1-billion in fiscal 1958, rather than the Administration's \$400-million; he predicts a deficit of \$2-billion in fiscal 1959, instead of the Administration's \$500-million surplus.

"I believe," says Kerr, "we will have to raise this debt limit to \$280-billion now and still come back next year and have an emergency before us."

• **Economic Views**—Kerr learned his economics at the drilling rig and in the market place. So he does not hesitate to question the economic assertions of some of the nation's most erudite theoreticians. This means that the Administration's fiscal and economic spokesmen had better come well prepared to document their case when they appear before Kerr.

Where Byrd built a Senate career on abhorring public debt, Kerr belongs to the economic school that holds that deficit spending and pump-priming are the weapons to fight a recession. Right now, Kerr favors an immediate tax cut—an increase of \$100 in individual exemptions—to put spending money in the hands of consumers. He would make no cut in corporate or excise taxes.

• **Man for Man**—How do the two senators compare otherwise?

Both Kerr and Byrd have supported reciprocal trade legislation in the past, but both are sure to have reservations on the pending extension of the act. They will likely favor passage but will probably advocate protection against imports. Kerr comes from a state where both the mining and oil industries are demanding relief from import competition.

Kerr has long been a strong advocate of liberalizing social security benefits. When Byrd put a conservative bill through committee in 1956, Kerr led the fight on the floor that lowered from 65 to 62 the age at which women could begin collecting social security benefits. Kerr also helped put through an amend-

ment to authorize disability payments at age 50 instead of 65.

• **Growing Influence**—Kerr will not take over officially until next year—and then only if the Democrats retain control of the Senate—but he is expected to exert growing influence in the committee during the rest of this session.

His move for leadership and his increasing skepticism of the Administration's anti-recession efforts may show up when the committee resumes its monetary hearings around Mar. 1. Before he gets through, Kerr hopes to establish the Administration's economic policies as the No. 1 political target for the Democrats.

He contends that tight money and credit have put a hammerlock on housing. He adds: "Humphrey locked it up while he was here, and I hope Ike can get the key back during his vacation."

• **Formula for Recovery**—Kerr has his own recovery plan:

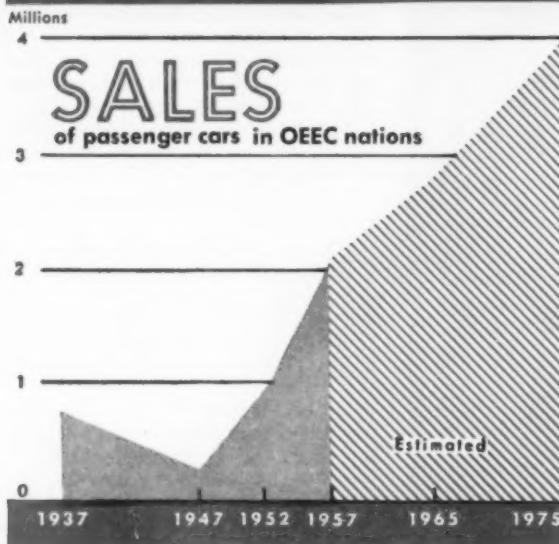
He believes the place to start is with agriculture. He blames the farmer's plight on "the dual curse" of Secy. Ezra Benson's policies and of tight money. Kerr has been solid for high price supports and most of the Democratic farm programs.

He would drastically change fiscal and monetary policy. He would lower the discount rate from the present 2½% to not more than 2%, and he would force the prime interest rates of banks down to not more than 3%. But he would not cut reserve requirements, as some Democrats are advocating. He contends that it does not help the farmer or the small business man to make more credit available so long as interest rates are "prohibitive." These changes in monetary policy, he contends, would enable state and local governments to go ahead with a backlog of construction projects.

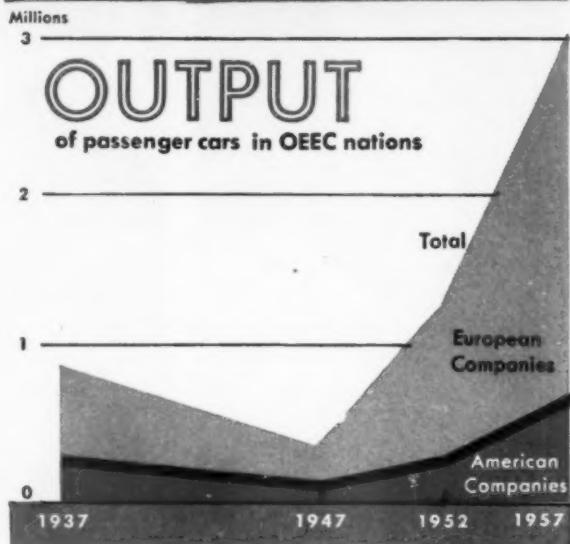
Kerr would step up defense spending; accelerate public works such as flood control, soil and water conservation, reclamation, and roads; broaden the base of unemployment insurance and increase both the time and benefits. On taxes, he would immediately increase personal and dependency exemptions to \$700 in order to boost purchasing power for low-income families.

Under Kerr, the staff of the Finance Committee is almost sure to be expanded. In the past, chairmen of this committee have operated in a sort of country-store atmosphere with a woman clerk, two or three stenographers, and one professional staff member. For professional help, the committee has depended on the Joint Committee on Internal Revenue Taxation. Kerr will want his own staff of economists.

**The European auto market
bursts upward...**



**Served by European producers
and American-owned plants
in Europe**



Detroit's Big Chance Abroad

Even as the domestic market of the U.S. automobile industry has been slumping, a vigorous new market for Detroit has been rising almost unnoticed—in Europe. And it presents U.S. auto makers with an opportunity they haven't known for 30 years.

However, it isn't an opportunity to sell Detroit-built cars in Europe. Rather, the occasion calls for investment by U.S. auto companies in Europe, to stake out a larger claim on an economic new frontier—the mass market being created by the European Common Market and likely to be extended by the proposed Free Trade Area.

• **Anxious Buyers**—By yearend, the preliminaries should be complete in the formation of the European Economic Community, or Common Market, by France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg. In 12 to 15 years, this should mean an auto market nearly as big as that of the U.S. More than 160-million Europeans, starved for cars, will someday be permitted to buy them with about the same free choice as an American car buyer. However, there's an "if." The customer will have free choice only among cars produced in Common Market countries or in the Free Trade Area countries that may become associated with it. If U.S. companies want in, they'll have to produce on the spot.

That's what is really behind General Motors' and Ford's expansion of their plants in Britain and West Germany

and Chrysler's efforts to tie up with a European auto company. Chrysler is seeking European production facilities to get in on the small car boom in the U.S., but that's just an offshoot of the real goal—a plant to serve the European market and Europe's overseas export markets. Chrysler would really like a plant in Britain, if the Free Trade Area goes through. But it may have to go for one in Germany or even France. For, as matters stand today, only GM, with its big Opel plant in West Germany, has a real advantage. Ford's big plant is in Britain, which is outside the Common Market, and Ford will really benefit only if the Free Trade Area gets past the talking stage.

• **Common Tariff**—The Common Market Treaty was ratified last year (BW-Jun. 29 '57, p. 70) and took effect Jan. 1. It provides for a gradual reduction of tariffs among the six member states beginning the end of this year and creation of a common tariff on goods shipped into any of the six countries from any place outside. The duty—likely to be from 20% to 30% on autos—would be the same for a car from the outside going into Belgium, say, as for one going into France.

Britain has no intention of joining the Common Market, partly because of its preferential agreements with Commonwealth nations. Britain and the other likely members of the Free Trade Area—the Scandinavian countries, Austria, and Switzerland—are trying to

hammer out an agreement that would abolish tariffs on industrial goods moving among themselves and between any FTA nation and the Common Market. That would mean—when and if it worked out—that cars produced in Britain could compete just as easily in the Common Market as German cars.

I. Defining the Market

On Jan. 1, 1957 (the last date for which figures are available), the passenger car ownership in the six Common Market countries totaled about 8-million—about one car for every 20 persons, as compared to one for nearly every three persons in the U.S. If you broaden the market to include the FTA nations, you get total car registrations early in 1957 of about 14-million and 1957 production of around 3-million cars. Of the total output, some 50% was exported to the outside world, including the U.S. (Intra-European car exports aren't very large; the four big producers—Britain, West Germany, France, and Italy—now have highly protected auto markets.)

In the Common Market and FTA combined, there are nearly 250-million people; Gross National Product is around \$220-billion; total automobile registrations (not annual sales) have been rising about 6% a year (compared to about 3% in the U.S.). According to J. Wilner Sundelson, of Ford's International Div., about 2-million new cars a year are bought today in the Com-

mon Market and FTA countries. By 1965, he expects annual sales to grow to 2.8-million or better, and by 1975 to at least 4-million a year (charts). On top of this, exports to the outside world will continue to grow.

• **Billions Needed**—It's breathtaking to contemplate what will have to be done to the European auto industry to fulfill the destiny Sundelson and others see for it. If there are going to be sales of 4-million passenger cars within the Common Market and the FTA and Europe expands its exports, that means production capacity for all types of vehicles might be possibly as high as 8-million. That is getting within hollering distance of U.S. capacity today. The capacity of British, German, French, and Italian plants in place or under construction is probably around 3.6-million vehicles a year. To bring it up to 8-million by 1975 will involve, according to one knowledgeable source, new capital investment of \$7-billion to \$8-billion.

A good-sized chunk of this money will have to be spent by U.S. companies in Europe, especially if the U.S. share in European auto production is to rise from the present 20% or so of total output to the roughly 25% of prewar days (charts).

As of today, it's a safe guess that, together, the total assets of the Ford operations at Dagenham and Cologne come to about \$450-million. (Neither plant is wholly owned by Dearborn.) GM's total assets in Opel and Vauxhall, which are wholly owned subsidiaries, probably are about the same. Both companies also have sizable stakes in European assembly plants.

II. Who Wins the Market?

Where will the kind of new capital that's needed come from? All the major producers are now completing expansion plans, most of it with plowed-back earnings. But Vauxhall and Opel have been assisted by GM, Ford of England, and Ford-Werken (Germany) by the U.S. company. And there's another source of capital. As an American says wryly, "The Europeans don't have the inhibitions we do about government assistance to industry."

American experts believe that there will be private European capital available to do the job. In addition, the Common Market Treaty provides for the establishment of a bank to furnish capital for new productive facilities.

• **Incumbents**—Right now, British Motor Corp. is Europe's largest producer, with a capacity that probably could be pushed to 500,000 vehicles (cars, trucks, and buses) annually. But Volkswagen is planning to boost capacity to around 600,000. Vauxhall is moving up to 250,000 vehicles annually and Opel to \$300,000. Ford's

target is 650,000 annual capacity at its British and German plants by 1959. France's government-owned Renault is moving up around 300,000 and Italy's Fiat to 500,000.

The speculation in Detroit is that those companies, plus the Rootes Group in Britain and Saab of Sweden, will be primarily concerned with Europe's automotive expansion. For, both in the U.S. and abroad, there is a conviction that the free flow of men, materials, and money throughout the Common Market—and to some extent the Free Trade Area—will mean a concentration of large companies similar to the setup that has evolved in this country. It is pointed out in Detroit that already such companies as Volkswagen, Renault, and British Motor Corp. are as low-cost, efficient producers as any company in the U.S.

• **Concentration Moves**—This concentration, in a minor key, already has begun. Citroen, France's second largest producer, and Panhard, a much smaller concern, have combined their engineering and marketing. Down the road, some Detroit experts look for what would be, except for the Common Market, international combinations: France's Citroen and Germany's Mercedes-Benz already have been dickering.

Europe's growing efficiency, the trend toward concentration, the Common Market itself, have pointed implications for U.S. auto makers.

III. Meaning to Detroit

Right off the bat, the Common Market and Free Trade Area mean the European market for U.S.-built passenger cars is almost gone. In recent years, it has not been much of a market, but Detroit executives have been fond of loosely talking about the "dollar shortage" as the main reason. But the principal reason for the declining U.S. market in Europe has been the size of U.S. cars and the tariff barriers abroad.

In 1956, the U.S. exported nearly 34,000 cars to all of Europe; the Benelux nations took more than 19,000, Sweden and Switzerland about 9,000. Ten years ago, the U.S. shipped 66,000 cars to Europe, nearly 33,000 to Benelux. The Benelux nations have been low-tariff areas. But under the Common Market, the highest tariff of any of the six could become the lowest tariff on goods from the outside world. It is estimated that the Common Market tariff on U.S. cars will be 30%.

• **Resentment in France**—How successful new U.S. companies will be in establishing production facilities within the Common Market area is open to question. France, in particular, takes a dim view of outsiders. It forced certain restrictions in the original plans for the Common Market in order to protect its home industries. France also is not

too happy about the Free Trade Area plans. It sees Britain's strong auto industry able to move into Europe freely, with French companies not having the same privileges in the British Commonwealth. Accordingly, unless U.S. concerns move in fast, before the Common Market is fully developed, they are likely to find themselves permanently frozen out.

Export-minded executives in Detroit are resigned to loss of U.S. sales in Europe and in the Common Market. However, as they look down the road to the effect of Common Market production on the other areas of the world, particularly South and Central America, they do get concerned.

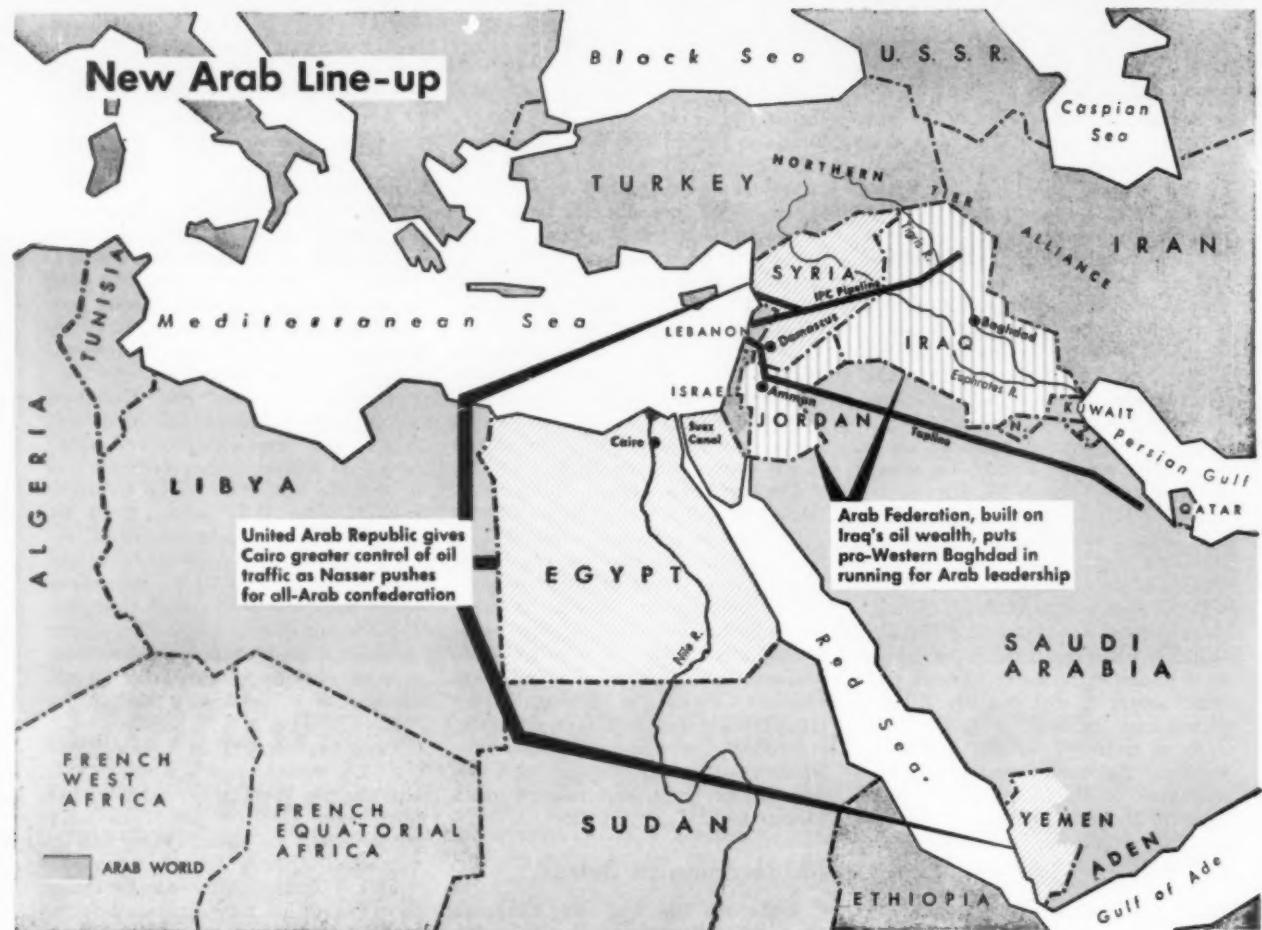
The worry is over this: Common Market auto producers will have high volume and "large efficiencies of scale" from such volume. Those producers will be making cars more suited to world markets than U.S. autos. Even by 1975, European production costs (because of lower labor costs) probably will not be so great as U.S. production costs. So, even if by that time the U.S. is producing a smaller, more economical car, it will be confronting in world markets an industry as big and efficient as its own and one with a cheaper product.

• **Native Industry**—That is only part of the U.S. export picture. Brazil now is building its own auto industry (all three major U.S. companies will have plants there), and there is some sketchy talk about a South American common market. Whether such a federation ever takes place is not too important because by the time the European Common Market is set, Brazil should be in a position to serve other South American countries from its auto plants.

Southeast Asia is another area where local production will take the market. There are fairly big, and expanding, plants in Australia. Japan's vehicle production is growing rapidly. India is striving to build an auto industry.

With the tide running heavily against exports from the U.S. and toward production abroad, one Detroit executive has been heard to say: "Before I retire, I hope to see my company producing as many units abroad as in the U.S."

• **Capital Needs**—All told, the signs for Detroit auto makers are clear: move money (not cars) into the areas where car population growth is assuming the characteristics it has in the U.S. during the past 30 years. And that means moving the biggest chunks of money into Europe, where per capita income (and therefore auto purchasing power) is expected to climb from \$800 a year to \$1,100 a year by 1970—as against an expected climb from the present average of \$150 a year to only \$200 in the developing countries of Latin America, Africa, and South Asia.



Push for Unity Divides Mideast

The struggle between Nasser's United Arab Republic and the pro-Western Hashemite Dynasty for control of the Middle East will heighten tension in the Arab world.

Two pairs of federated Arab states glowered at each other this week across the shifting sands of the Arab world—Egyptian Pres. Nasser's United Arab Republic, which merges Syria with Egypt, and the Hashemite Dynasty's Arab Federation, which links the kingdoms of Jordan and Iraq (map).

What was billed in Cairo only two weeks ago as a move toward Arab unity now has turned into a renewed struggle between the Egyptians and the Hashemites for leadership of the Arab world. Ultimate Arab union is the declared aim of both federations, but Nasser's initiative and the Hashemite reaction have only served to split the Arab world more deeply than ever. Meanwhile, the struggle between the East and the West for influence and control in

the Arab Middle East goes on unabated.

- **Old Dream**—Pan-Arabism is as old as Arab national consciousness. In its modern version, it was born in American and French missionary schools in the Levant over a century ago. It still is influenced by dreams of reuniting the Arabic-speaking lands as Saladin did eight centuries ago when he defeated the Crusaders and annexed Egypt to Syria.

In the past 100 years, three attempts have been made to unite the Arabs of the Middle East. The first two—one from Egypt in the early 19th century and another by the Hashemites at the end of World War I—were crushed by European hostility, especially British. Finally, after World War II, the newly independent Arab states set up the

Arab League, a loose alliance of sovereign states, as some sort of step toward the Pan-Arabist dream—only to have this move frustrated by lack of leadership, dynastic rivalries, and Western support for Israel.

- **Many Schools**—Today, nearly every Arab hankers after some sort of union. But there's little agreement on how far the boundaries should stretch, how closely knit the union should be, and who should run it.

Many Levantine intellectuals have dreamed in recent years of a greater Syria, the "Fertile Crescent," including Iraq, Jordan, Syria, and Lebanon; but they exclude the feudal states of the Arabian peninsula and the Arabs of Africa.

Some Egyptian nationalists believe Egypt should look south along the Nile Valley to the Sudan and Eritrea, rather than north to Syria. North African nationalist leaders such as Tunisia's Premier Bourguiba think exclusively of a North African federation that would

include Morocco, Algeria, Tunisia, and Libya but have no special relations with the Arab countries of the Middle East.

I. Nasser's Timetable

Nasser, who is now 39, has ambitions that go far beyond any of these schemes. His proclaimed plans already include a huge Arab republic that would stretch from the Atlantic to the Persian Gulf, with Cairo as the capital. And even that would be only a stepping stone for a bigger commonwealth of the Moslem nations of Asia and Africa.

Like his plan to nationalize the Suez Canal, Egypt's union with the northern Arabs of Syria has been long in Nasser's datebook, but not for quite so early as it actually happened. As with Suez, outside developments pushed Nasser to rush the Syrian-Egyptian union, then to gather in Yemen (the ruler of Yemen hopes that Nasser will help him get Aden away from the British). And now outside developments may lead Nasser again to push for more territory. His United Arab Republic, handicapped as it is by lack of geographical unity and by economic weakness, cannot remain static for long.

• **Pushed-Up Schedule**—It was Syria's internal instability that forced the pace on its union with Egypt. Fearing a Communist landslide in elections that were slated for August, or a coup by leftist extremists in Syria's army, the pro-Nasser Syrian Socialists asked the Egyptian dictator to launch a total merger immediately and not to wait for a loose confederation, as the Communists had suggested earlier.

Since Nasser already was facing the problem of whether he or the Syrian Communists would handle Egyptian-Syrian relations with Russia, he didn't hesitate. Moreover, he saw the advantage of stirring up the nationalists and radicals in neighboring countries and of enhancing further his own prestige with the poverty-stricken masses of the Middle East.

Despite the fact that Syria and Egypt are militarily and economically dependent on Moscow and pursuing a pro-Soviet line, it is pretty clear that Soviet influence was not behind the sudden union. As always, however, the Soviets will be ready to exploit this latest spontaneous impulse in the Arab world, as they did the Palestine conflict and then the Suez crisis.

II. Matched Opponents

Both Cairo and Moscow must have been taken aback by the speed with which anti-Nasser and anti-Soviet forces reacted in Jordan and Iraq. It was only a matter of days before the two young Hashemite cousins, King Feisal of oil-rich Iraq, and King Hussein of unstable,

resourceless Jordan, hastily formed their "Arab Federal State," and declared it open to all comers.

Some Mideast observers feel that this union could have been pulled off just as easily before Nasser set up his, if Iraq had not turned its back on the Arabs to join the Baghdad Pact, or "northern tier alliance," which is meant to form a military and political shield against Soviet aggression.

• **Hashemite's Claim**—Geographically, economically, and ethnically, the Hashemite federal state is the more natural of the two unions. But politically, it looks shakier. In the Hashemite federation, the two parts will remain sovereign kingdoms. Both maintain embarrassing ties with the West, and both are identified with the traditionally pro-British Hashemite dynasty, which so far has lacked qualities of great leadership. Moreover, Jordan's large population of Palestine refugees and Iraq's grumbling minorities are attracted by Nasser's magnetic personality.

• **Nasser's Advantages**—Egypt and Syria will have the stronger central government, ruled by one man—Nasser. It will have the advantage of an efficient army intelligence system. Then, while the 6½-million Hashemite peoples can muster as big and as disciplined an army as the 27-million Egyptian-Syrians, the Soviet-equipped Egyptian air force has triple the air strength of the Hashemites.

Yet military strength doesn't count for too much in this picture, since no Arab these days is likely to use arms against another Arab. In their struggle for the leadership of at least the Middle East Arabs, the two federations will use psychological warfare, internal subversion, and economic warfare.

III. Balance Sheet

In terms of economic strength, and ability to exert economic pressures, the balance sheet stands about this way:

Nasser's United Arab Republic is well situated for exerting economic pressures on the Hashemite federation. Squatting between Iraq and Jordan and their Mediterranean outlets to the West, Nasser's union (which already controls Suez) now has a stranglehold on (1) Iraq's oil exports to Western markets via pipelines (map); (2) Jordan's phosphate exports to Europe; and (3) the bulk of the Iraqi and Jordanian transit trade that moves through Lebanon's port of Beirut.

Nasser can use his control over the pipelines to wrest more concessions not only from Iraq but from Saudi Arabia, which is standing aloof from both federations. Then, if Nasser can get enough financial support from Moscow to irrigate the Syrian stretches of the Euphrates River, he can cut down the

potential of agriculture expansion on the Iraq part of that river.

• **Obstacles**—On the other hand, Nasser must take account of the pipeline revenues, which now supply one-quarter of Syria's budget revenues and count for much more than Suez revenues do to Cairo. Also, Syria badly needs Iraq's oil for local consumption, though Soviet oil might replace this.

Actually, lack of common frontiers, economic disparities, social and ethnic differences will provide real obstacles when it comes to the practical details of putting Egypt and Syria together. The Syrian and Egyptian economics definitely are not complementary. Both are cotton exporters and both have developed spinning and weaving industries. Egypt's per capita income is \$98 a year, while Syria's is \$175. Syria's balance of payments is favorable, while Egypt has been running a heavy deficit. Yet Syria has no large reserves of foreign exchange to offset Egypt's shortages.

Another obstacle is that Egypt has a strictly planned and state-controlled economy—with the state owning most new industries and many import-export firms. Landholdings are limited in Egypt to 200 acres per family.

By contrast, Syria has no land tenure restrictions and practices a relatively free economy with respect to industrial development and capital transfers. That's why last week, a Cairo declaration that there would be a monetary and customs merger and joint offers of Egyptian and Syrian cotton on world markets, caused near panic in Syrian business circles, producing an extremely heavy flight of capital.

• **The Federation**—Unlike Nasser's republic, the Hashemite federation provides for a complete customs and monetary union. For the first time, in fact, an oil-rich Arab state is joining with a have-not. This may put a heavy burden on the Iraq economy, since it already devotes 70% of its \$200-million-plus oil revenues to long-range development projects, and the rest to cover ordinary budget expenditures.

The union should prove a boon to the Jordanians, who will be able to find jobs in underpopulated Iraq's expanding economy and get capital for their own development potential, especially in phosphate and potash. One thing this union is counting on is Western aid for Iraq's irrigation projects, which, if fully developed, could provide farm land enough to support a population of 20-million, or almost four times Iraq's present population.

It's even possible that King Ibn Saud of Saudi Arabia will extend some financial help to Jordan. But Saud is now sitting on the fence. It looks as though he'll bide his time, and perhaps try to play the role of mediator between the two new Arab federations.



How is America doing in recession? The impact varies with areas. Here is a report on Philadelphia, which has suffered less than some, but still has its share of jobless (picture, right).



How the Sag Hits Philadelphia—

Jobs and Jobless in Philadelphia Area*

(In Thousands)	MAY 15	JULY 15	SEPT. 15	NOV. 15	JAN. 15
Labor Force	1,766.0	1,773.6	1,779.0	1,788.9	1,779.1
Unemployed	96.5	95.9	85.5	101.6	140.0
Percent Unemployed	5.5%	5.4%	4.8%	5.7%	7.9%
Employed	1,669.0	1,676.9	1,692.7	1,687.1	1,639.1
Manufacturing	577.7	578.0	579.0	576.0	535.0
Non-manufacturing	862.3	865.8	877.2	889.1	859.1

* Includes Pennsylvania counties of Bucks, Chester, Delaware, Montgomery, and Philadelphia, plus New Jersey counties of Burlington, Camden, and Gloucester.

Data: Bureau of Employment Security, Pennsylvania State Employment Service.

AMONG COMMUNITIES hit by the present U.S. business recession, Philadelphia is a good deal more fortunate than some. It depends on no one or two industries for prosperity (in Detroit, which leans heavily on autos, unemployment is at 12% of the labor force).

All the same, Philadelphia is hurting, and the very fact that it's not an extreme example makes it a rewarding case study of recession's impact. In talks with the unemployed themselves, and with major employers, bankers, merchants, and other businessmen, a team of BUSINESS WEEK reporters last week discovered several points of similarity to nationwide trends.

I. Who Are the Jobless?

By and large, unemployment in the Philadelphia labor market area, which includes five counties in Pennsylvania and three in New Jersey, closely follows the national pattern. Layoffs and shortened work weeks have been the



Confidence Despite Fewer Jobs

heaviest in plants that manufacture durables—electrical equipment, primary metals, and transportation equipment.

But the slump in durables is not the sole cause of area distress. The textile industry, long depressed in the area, is a heavy contributor to the unemployment rolls. So are the construction trades, which are experiencing something considerably worse than their normal seasonal lag.

• **Serious Surplus**—As of Jan. 15, the area's unemployment total was 140,000, or 7.9% of the available labor force. This, in the officialise of the employment experts, qualifies the area as having a "serious" labor surplus.

But critical as these percentages are to the unemployed themselves, they do not tell the whole story of the present crisis. Ever since the recession of 1954, Philadelphia has had more unemployed than the average for the rest of the nation.

• **Permanent Unemployed**—So some 90,000 of the area's unemployed can-

not be traced to the present national recession. No one really knows who these people are, but some city officials and local economists guess that at least 30,000 to 40,000 of them have been jobless since 1954 and are more or less "permanent unemployed." Some of the others are people who float in and out of the labor force—women who want to work to meet a family financial crisis and women and youngsters seeking part-time or seasonal jobs.

In November and December, such people swarmed into the labor force, picking up jobs in stores, post offices, and the like for the Christmas season. According to the Pennsylvania State Employment Service, there were 10,000 extra workers hired by the retail trades.

At any rate, you can attribute only 30,000 to 50,000 new jobless to the present business slump. The new unemployed are another breed.

In the first place, the "permanent" unemployed have long since ceased receiving Pennsylvania's generous unem-

ployment compensation payments—\$35 a week for 30 weeks. They are on relief, or subsisting on earnings from odd jobs, or in public institutions. But part of the reason these people are still unemployed is that most of them are unskilled.

• **New Victims**—The new unemployed, not to mention those on shortened work weeks, are skilled or semi-skilled workers. This means they have been higher paid, have spent more and, in many cases, have some savings. They also are largely people with houses, cars, appliances.

Few of these people are hurting—yet. They have stopped buying appliances, jewelry, beer, and other nonessentials, but they haven't cut down much on food and essential clothing. There has been some increase in automobile possessions in the last month, but the majority of the new unemployed are keeping up with their payments somehow. Some are having difficulties with mortgage payments and are attempting

to work out easier payment schedules. (They are getting sympathetic assistance from mortgage companies, too.) Foreclosures on homes are mounting, but only slightly.

So the new unemployed are living off their unemployment compensation and, where available, their savings. Most of them are cheerful, hopeful of returning to work "in a month or two."

• **Reminder of 1929?**—But when their savings are exhausted, when they have cut their expenses to the minimum, they are likely to be far less optimistic if that job doesn't look to be any closer. They certainly will be spending less and thereby adding to the drag on the area's slumping retail trade. If they don't get work within 30 weeks and have to turn to relief, then the situation in Philadelphia certainly will begin to look more the way it did in 1929.

II. What Chance for Jobs?

The recession has been felt in the Philadelphia area mainly in durable goods manufacturing, construction, and railroads.

All important sectors in manufacturing—with the exception of food and printing, which rose by a hair—were off employment from a year ago. Contributing most to the declines were drops in steel, cars and aircraft, radio and TV, and carpets.

In nonmanufacturing employment, stops in construction and railroads were almost offset by increases in services, trade, finance, and government.

• **More Impact Later**—Philadelphia's strength in manufacturing has been diversification, but a recession cutting across the board won't spare it. And it has become more vulnerable to durable goods recessions because of growth in fields such as electrical machinery, drops in fields such as textiles.

It did not take much reduction in employment to nudge Philadelphia across 6% in January, to become a surplus labor area.

Philadelphia never fully recovered from the 1953-54 recession. All along, its unemployment figure has run one percentage point or more above the national average.

Since November, unemployment has increased by 40,000 or more. A substantial number of the jobless, of course, were seasonally out of work.

But, more significant, to the rolls of unskilled and semi-skilled workers who are unemployed have been added workers whose skills companies were competing for not long ago. They include engineers, machinists, tool and die makers.

• **How Long Endure?**—How long Philadelphia can continue at the present level of unemployment without feeling more pinch is a matter of speculation.

Corporation and bank economists feel that the recession will have a snowballing effect in Philadelphia if it doesn't turn around by late April. Another observer gives the area a year.

The State Employment Service staffers speak in terms of coming back down to below the 6% "surplus" level by midsummer, although they apparently will do it partly by revising downward their basis for computing unemployment.

The city economist, Kirk R. Petach, relying on earlier figures, is gloomier than anyone else. He has projected unemployment averaging around 150,000, or 9.2%, for the first half of 1958, then dropping to 7.5% in the second half.

• **Cry for Help**—Whatever projections are correct, there appears to be greater agreement on two points:

• Partly because of seasonal factors, unemployment has hit bottom.

• Whatever needs to be done to revive the national economy—and Philadelphia—is beyond the powers of a mere city or state.

Said Mayor Richardson Dilworth:

"The city and the state simply do not have either the financial ability or the flexibility to improve the situation. What is needed is a lot more than a few millions of public works projects. We need to build homes, office buildings, highways, and schools in large numbers. And even if we had the resources, we have to live within budgets and borrowing limits."

III. How Philadelphia Feels

Morale of the newly unemployed, the partially employed, and the business community in Philadelphia generally is surprisingly good. Everyone expects business to pick up soon. "Soon" means anything from now to the end of summer, depending on who is talking, but a majority feels that a big improvement will come in early spring.

Confidence is so strong among the recently unemployed that most expect to go back to work for the same company in the same job and at the same pay. Many are simply drawing their unemployment compensation checks and waiting to be recalled by former employers—they're not making any great efforts to find new jobs.

• **Job Hunters**—An exception is the average construction worker. About 17,000 people in the area have been let out by construction outfits. This is about 5,000 more than the usual seasonal layoff total, according to the State Employment Service.

But a good percentage of these people spend the first week or two after they are laid off scurrying to other construction jobs and applying for work. Despite union advice, many unem-

ployed construction people are neglecting to apply for compensation until after they have made an exhaustive job hunt. Then, weary and discouraged, they find they have to sit out the one-week waiting period before they are eligible for compensation checks.

• **Waiting for Spring**—Businessmen generally are less optimistic, but only slightly less. Among this group, the major reasons for looking for an upturn include a strong belief that inventory cutting is about at an end. Another is the hope that increased military spending will soon reach the contracting stage and that industry in the Philadelphia area will get a good share of the contracts. Then there is the traditional expectation, among merchants and jobless alike, that things will "get better in the spring—they always do."

• **Stretching the Budget**—By talking to people lined up at the State Employment Service for unemployment compensation checks, you get a fairly good sample of reactions—how they feel about the recession, what their spending priorities are, how they're managing to sustain their families.

The popular notion that people cut back luxuries in times like these is apparently correct, although sometimes consumers don't agree on definition of luxuries. A woman is foregoing a new rug and furniture. A fashionably dressed man is wearing last year's styles. One fellow said he is cutting out his weekly case of beer, but a truck driver reported he and his friends still drop \$10 apiece buying a round of drinks.

Generally, they appear to be making out on a reduced budget, are nibbling at savings with only the greatest reluctance, if at all. Often, one member of a family is still at work, so the family doesn't have to depend wholly on the state.

In stretching their lower income, most have not yet had to ask for an extension of installment payments on automobiles and appliances. Some said they would if necessary.

• **Still Confident**—A carpenter, out of work three months after 20 years of steady employment, said: "If we get a break in the weather, I should be working soon." He is reducing spending on food and clothes, but continuing his car payments.

A woman who managed a women's and children's specialty shop nine years until her dismissal after Christmas remarked: "I could get a job for \$50 or \$60 a week. But why should I? I was making \$125."

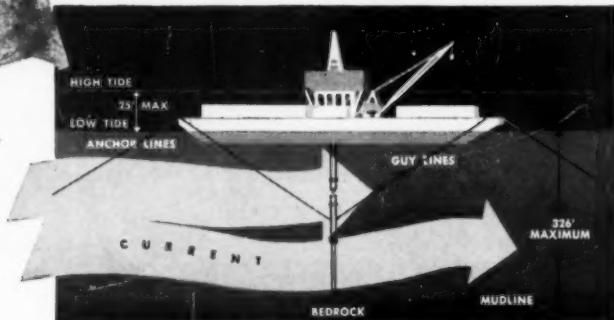
• **Retail Impact**—Among retail merchants, the food retailers appear to be feeling the recession the least. In cabs and barber shops you hear talk about the food markets selling more hamburger and less steak, piling up huge

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Once again, Brown & Root's impressive array of equipment and vast backlog of practical knowledge resulted in a tough job finished right... more quickly and at lower cost than the customer thought possible.



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CABLE ADDRESS—BROWNSILT

backlogs of fancy and imported goods. But in the markets themselves there is no sign of this. And the head of Food Fair Stores, Inc., Louis Stein, reports his chain's sales and profits for the fiscal year ending in April will be well above the previous year's. Philadelphia area markets, as well as those in other regions, have contributed to this increase, he adds.

Despite lower than usual seasonal dips in sales, the city's department and specialty stores attribute their trouble more to unusually severe weather than to unemployment.

• **Collection Trouble**—Automobile finance companies are having a little more trouble collecting monthly payments, but all agree the situation is not yet "serious." The local office of big General Motors Acceptance Corp. reported heavy delinquencies in December and "more voluntary repossessions than usual" because of unemployment and shortened work weeks. But delinquencies and repossessions were down sharply in January.

A smaller finance company reported its repossessions were rising steadily, though "they still are not at an alarming rate by any means."

Home financing agencies report increasing slowness in mortgage payments but, again, "nothing alarming yet." In fact, one major mortgage company reports its January delinquencies were down to the lowest point in 10 years. But another big mortgage company reports increasing delinquencies in payments on lower-priced homes (\$10,000 to \$14,000) in industrial areas outside the city.

The same concern notes a large increase in foreclosures during 1957-98 against 16 two years ago.

IV. Confidence in Levittown

Presumably, the darkest signs of recession should show up in a middle-income housing development bordering Philadelphia's relatively hard-hit steel industry. But all BUSINESS WEEK reporters found that in Levittown, home of many steelworkers from U.S. Steel's Fairless works, neither merchants nor consumers have adopted a gloom-doom attitude.

Most tradesmen have something like this to say: "Sure, a lot of people have been laid off, and they're reducing their spending. But we've been pinched just slightly so far. We really haven't felt the impact of any recession yet—but if things don't get better in a couple months we'll start to hurt."

Levittowners are meeting their obligations on essentials. The largest real estate agency reports few mortgage or rent delinquencies. After four or five years in Levittown, homeowners have considerable equity in their homes. As

one realtor says: "These people are in good shape now. They've paid off their cars, their furniture, and the other things they needed to get started. They're not about to lose what they have by risking a mortgage foreclosure."

• **Scrimping on Clothes**—Food and clothing purchases are being trimmed. For instance, the manager of a men's clothing store, moderately happy about sales, says: "Consumers are shopping around a lot more. They're looking for bargains."

Food sales show no lag generally.

But delicatessens and bakeries report buyers are leaving higher-priced items in the trays. A pharmacist reports the same trend. People, he says, are cutting out extras, "like vitamin pills." They have prescriptions filled, but cut the quantity in half. For instance, if the prescription calls for 50 pills, they'll take 25 and get the rest later—if they need them.

Home furnishings, appliances, auto accessories are being pinched out of many Levittown budgets. Some appliance orders are being canceled, and big buying has slowed almost to a halt.

Fed Opens the Credit Valves

Cut in reserve requirements is taken as sign Fed is willing to take strong anti-recession measures; but small cut indicates it will still be cautious in applying them.

The nation's monetary managers moved this week to pump a big dose of additional credit into the banking system. Effective at the end of February, the Federal Reserve Board cut reserve requirements—the amount of funds that member banks must hold against demand deposits—by $\frac{1}{4}$ of 1%.

This move, the bluntest and strongest of all monetary measures, will release an estimated \$500-million in reserves. Because of the multiplier effect of reserve dollars, it will provide the nation's banking system with an extra \$3-billion in lending power.

• **Welcome**—The money market—and particularly the banking community—welcomed the Fed's action. They interpreted it as a sign that the Fed recognized the recession was deepening, and was willing to take strong measures to counteract it. In fact, most bankers expected that the Fed would make another reserve requirement reduction before too long—in order to help smooth the way for the next Treasury financing. Some observers believe that the Fed would reduce the requirements on central reserve city banks in New York and Chicago in order to put them at the same level as other city banks.

Administration officials have pressed for a cut in reserves. And the Fed itself has been considering a reduction (page 157). Its decision to act this week was based partly on the short-term decline in the economy, and partly on the need of providing the banking system with additional funds for long-term growth.

• **Groundwork**—The lowering of reserve requirements is not expected to have an immediate influence on loan demand. Normally there is a time lag before loans pick up. But it does lay the groundwork for substantial ex-

pansion in loan demand once a business recovery gets under way.

As an immediate anti-recession measure, the Fed's latest move will help to drive down interest rates charged borrowers. By cutting reserve requirements, the money managers in Washington are serving notice on the 12 regional Federal Reserve banks that another cut in the discount rate—now at 2½%—is in order. This will mean renewed pressure on the commercial banks to lower their lending rates.

• **Piecemeal Method**—But a further cut in bank lending rates is not probable until the Fed makes another cut in reserve requirements. As bankers see it, the present cut was less than they anticipated.

From the Fed viewpoint, piecemeal reductions make for a smoother adjustment in the bond markets, which were buoyed up by the move. Moreover, this method means that if the economy does turn up, then the Fed does not have to make additional moves.

Fed officials are basically more pessimistic about the business outlook than Administration economists. But they do not believe in pursuing a drastic anti-recession policy. So their half-point move indicated that they are still following a cautious line.

• **Major Move**—Nevertheless, cutting reserve requirements is a major move toward ease. Whenever the Fed uses this weapon, it is a sign that it is concerned about the future level of economic activity.

Wall Street does not expect that the reduction will mean any immediate stimulus to the stock market. Most brokers, in fact, took the news as an indication that the Fed was bearish. But the bond market, which has already been rising, will benefit further (page 150).

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In Business

McCann-Erickson Snare Buick Account; Drops Chrysler to Get GM Entree

An eight-week advertising cliffhanger ended last week when McCann-Erickson, Inc., second largest agency in the U.S., snared the \$24-million Buick account that had been orphaned when Buick suddenly fired the Kudner Agency (BW-Dec. 21 '57, p.28).

McCann, rated an outsider in the 10-agency Buick race, had to drop its \$26-million Chrysler account. So Chrysler is now up for adoption, as is the \$5-million Lincoln account, jettisoned for its own reasons by Young & Rubicam while the Buick scramble was on.

Trade circles generally think that the greater potential inherent in a foothold at GM reconciled McCann to giving up the slightly larger, for now, Chrysler account.

Some disappointed suitors and other Madison Avenue voices rather plaintively questioned the ethics of McCann's dropping one account to get another. But the pious note was pretty well drowned out in the rush for the Chrysler and Lincoln accounts.

"Lift Pills" Offer Drug Trade a Lift— They're Tranquilizers' Opposite Number

"Lift pills"—the so-called psychic energizers—are being counted on to boost 1958 drug sales clear above last year's record. Three of the new drugs—Marsalid, Ritalin, and Meratran—are already on the market; half a dozen more are undergoing final tests. Among them, the industry thinks they may add \$50-million to annual sales.

The pills, which pull depressed, withdrawn, or worn-out people back to normal tension, function as the reverse of the tranquilizers. Unlike the earlier benzodrine-type wake-up drugs, they act slowly on the central nervous system, stimulate the appetite, and reduce blood pressure.

First use of the new drugs will be in mental hospitals, but experiments indicate they may be useful in senility, mental strain due to overwork, and—teamed up with tranquilizers—for a sort of "whip-saw" treatment of cases of combined anxiety and depression.

Cold, Blizzard Put an Icy Crimp In Business of Half the Nation

The weather made the biggest headlines this week—and the biggest business news. Sub-zero temperatures gripped the Midwest and East, while a blizzard raged from Florida to Maine.

The winter's coldest snap curtailed plant operations, idled thousands—including Washington's army of federal

workers—disrupted transportation, and took a heavy toll on retailing.

Plants felt the draft as shivering homeowners turned up their thermostats, putting a heavy strain on utilities. In some areas, gas companies cut supplies to industrial users by 50%.

For merchants the cold spell—coinciding with the opening of their spring promotions—spelled murder. Stores reported business off as much as 75%.

Even New Orleans, with a measly but rare inch of snow, shut up shop early because of "inclement weather." "This wasn't the real reason, of course," says a city official. "But how can you say you just want to go out and enjoy the snow?"

Kress vs. Kress Foundation Bout Heads

For Court Ruling on Trustees' Power

The case of S. H. Kress & Co. is steadily cooking up to a court test of a point vital to many companies: Just how far can a foundation interfere in the management of a company in which it has a heavy stock interest?

Stripped way down, the dispute is between Rush H. Kress, 80-year-old chairman of the major variety chain, and the trustees of the Kress Foundation, whose 42% of Kress stock constitutes effective control.

Prodded by outside stockholders, the trustees have been urging management changes for the company, which has been slipping competitively though its position is ultra-sound. Rush Kress, in effect, tells them to hush up or get out—that his family gave the foundation its stock and so should have absolute rule of the company. Kress has cited one of the trustees—Harold Helm—to the FTC for possible conflict-of-interest because Helm is also a director of Woolworth's, a Kress rival.

Kress charges the trustees plan a proxy fight, but outsiders guess that he will seek a court order to prevent the trustees from voting the foundation's stock. The verdict may bring a clear precedent.

Business Briefs

General Electric is due for a new board chairman. Philip D. Reed, now 58, will step down from the spot this spring, but he plans to stay as chairman of the finance committee. At GE, rather uniquely, the board chairman ranks No. 2 to the president.

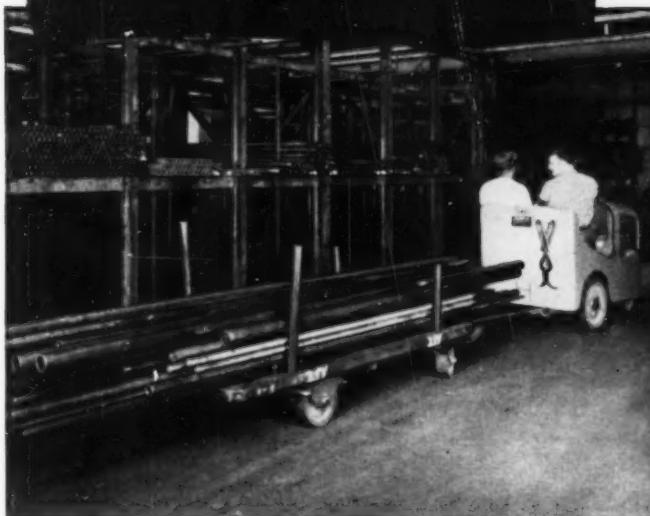
Detroit hears rumors that Ford will let tooling orders this spring for a small car—perhaps with 100-in. wheelbase and 100 hp. engine. The car would be for introduction late in 1959. Meanwhile, figures of R. L. Polk & Co. officially establish Ford as top dog over Chevrolet in 1957 registrations, with a 37,329 edge in passenger cars. Thus, Ford has 25% of the total market, compared with 14% in 1948.

Traffic deaths and injuries in the U.S. were fewer last year than in 1956, says the National Safety Council. It was the first decline in three years. Deaths last year were down 3%, injuries 1%.

Can you find the fabric in these pictures?



Concrete storage houses built on pneumatic forms, fabricated by Goodyear Tire and Rubber Company, using a Wellington Sears nylon base fabric.



Compressed blocks of Wellington Sears duck are used in Divine Bros. Canvas Cushion Tired Wheels on this factory truck.



Flaps of Wellington Sears fabric, coated with abrasive, form the "spokes" of the "PG" Wheel made by Minnesota Mining and Manufacturing Co.

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more industrial planners are turning to Wellington Sears—as their first source of dependable help, backed by over a century of experience in industrial fabrics. If you have any problem related to fabrics, call us.

And for an informative booklet illustrating many other industrial uses of fabric, write Department C-2 for "Fabrics Plus".

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General Contractor: ROBERT E. MCKEE GENERAL CONTRACTOR, INC.,
DALLAS, TEXAS

Piping Contractor: J. S. BROWN-E. F. OLDS PLUMBING & HEATING
CORPORATION, EL PASO, TEXAS

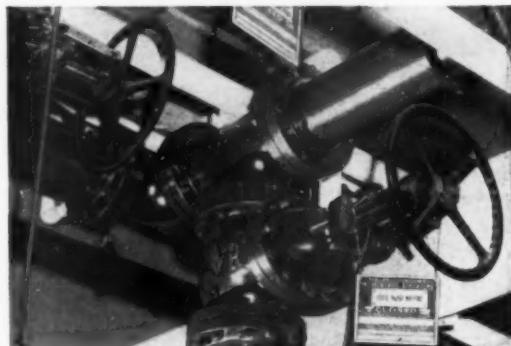
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GRADY MEMORIAL HOSPITAL selects JENKINS VALVES for long service life

Looked at from any angle, Atlanta, Georgia's new \$21,000,000 Grady Memorial Hospital—1069 beds, 17 operating rooms—is designed for economy in upkeep as well as efficiency. Like all operating equipment, the valves selected for this modern hospital had to pass a tough "physical".

Hospital authorities and builders had no difficulty agreeing on the specification "JENKINS" for all standard valves in the 21-story building. The extra measure of performance and reliability built into Jenkins Valves for generations assured long operating life, and low maintenance cost.

No other valves have such a long record of efficient, economical service. A good thing to remember when you select valves . . . especially since the valves that bear the famous Jenkins Diamond mark *cost no more*. Jenkins Bros., 100 Park Avenue, New York 17.



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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
FEB. 22, 1958



Administration efforts to stop immediate anti-recession measures will become more and more difficult. Democrats are piling tax cut, public works, and faster highway building programs into the Congressional hopper. And some Republicans begin to see the need for espousing government aid in order to protect their political flanks.

Pres. Eisenhower is buying time with his statements of optimism. He and his advisers believe they can avoid precipitous action from the Democratic majority in Congress for a month or so more. But Democrats are equally confident that if the Administration's gamble on an upturn fails, the remedies will be Democratic prescriptions, not the Administration's.

Democrats are preparing tax and works programs simultaneously. Sen. Paul Douglas (D-Ill.) is getting support for his \$4-billion to \$5-billion income and excise tax reduction measure; he got a big lift when Senate Whip Mike Mansfield swung behind his legislation. Senate Majority Leader Lyndon Johnson is pushing his 10-point works program. Sen. Dennis Chavez (D-N.M.), chairman of the Public Works Committee, has a \$1-billion-plus power and flood control list of works "ready to go." Sen. Albert Gore (D-Tenn.) will try to ramrod a faster highway building scheme through Congress now.

That is the temper on Capitol Hill.

The Administration will continue to try to keep Republican leaders reined in. The leaders are sticking with the President, opposing action on tax cuts immediately. The Administration's major anti-recession effort so far is the Federal Reserve reduction of reserve requirements this week (page 34).

— • —

There are some indicators coming that may change things. The seasonal figures, which normally show a springtime lilt, will be watched more closely than ever. Eisenhower has already pinpointed unemployment statistics. In fact, his advisers are concerned that the President's statement last week was interpreted as a "forecast" (page 23). Here are some key indicators to watch for:

The mid-March survey on capital expansion. The Commerce Dept.-Securities & Exchange Commission report on business plans to purchase new plant and equipment will show a drop. But what to watch for is: how much? These are the first government figures measuring business spending for the whole of this year. The earlier McGraw-Hill survey pointed to a 7% decline for 1958 (BW—Nov. 9 '57, p23). If the indicated drop in the government report is not greater than 10%, officials will figure that businessmen are holding well to long-term investment plans.

Consumer buying plans: The survey sponsored by the Federal Reserve will be out after mid-March, maybe as late as early April. It will show whether consumers plan to button up their pocketbooks. An earlier Michigan survey showed a drop in consumer optimism (BW—Jan. 25 '58, p131). So far, however, retail sales are holding at a high level—one of today's bright spots (page 19). If a major change in actual spending is coming, the consumer survey may show it.

Industrial production: This is a monthly FRB report. The index dropped 3 points in January, probably will again in February. The April report on March will be the first tell-tale of whether or not spring is bringing an upturn.

WASHINGTON OUTLOOK (Continued)

WASHINGTON
BUREAU
FEB. 22, 1958

Employment, of course. It is a monthly report, gathered by civil service employees who have no stake in politics. Though Eisenhower has pinpointed March employment, which will be reported about mid-April, as the beginning of brighter days, the figures will have to be read beyond the mere total number of unemployed. Seasonally, the jobless total should go down as much as 200,000. What experts will watch is how construction, farm work, and other outdoor activities fare—whether the work force increases beyond the expected seasonal upturn.

• • •

Republicans will pick up Vice-Pres. Nixon's attack on the Democrats. Nixon's line is that Democrats are betting on a depression to win next fall's elections. Washington sees his move as good politics.

If Nixon makes the charge stick, the Democrats will be on the defensive. The reasoning: If the business slump continues or worsens, Republicans will blame the Democrats for talking the country into depression with gloom and doom, and for refusing to follow Eisenhower. If business picks up, Democrats will be branded as calamity howlers.

• • •

The Minnesota election this week cheered Democrats, even though the Republican candidate won. Republican Albert Quie defeated Democrat-Farm Laborite Eugene Foley by only 1,000 votes in the special election to fill the seat of August Andresen, veteran Republican who recently died. Andresen won term after term with from 60% to 70% of the vote in Minnesota's best farming district. So Democrats claim a moral victory.

The close outcome convinces Democrats they can win in the fall. And Minnesota Democrats now expect Rep. Eugene McCarthy to unseat Sen. Edward J. Thye.

Republican farm state members see the close result as further evidence that Agriculture Secy. Ezra Benson is a political liability. New demands for his resignation can be expected.

• • •

Union labor will swing behind the Democratic anti-recession program. Leaders of 140 unions, headed by AFL-CIO Pres. George Meany and Auto Workers Pres. Walter Reuther, will hold an economic conference in Washington in mid-March. By then, Democratic tax and public works programs will be ready for endorsement. The unions will also demand higher unemployment benefits, and wage raises in this year's bargaining.

• • •

Solution of the business expense account issue is near. Here is how the Treasury Dept. and the Internal Revenue Service want to handle the income tax problem a year from now, when taxpayers report the total of reimbursed business expenses for 1958:

Returns of corporate executives and small businessmen will get the closest scrutiny. These are the groups of taxpayers subject to what government officials think is the least supervision over their business expense claims.

On returns of employees whose expense sheets are supervised, the government will be satisfied with a statement of total reimbursements for entertainment, travel, taxi rides, and telephone calls.

The proposal, as with other tax regulations, is subject to hearings before it will go into effect.

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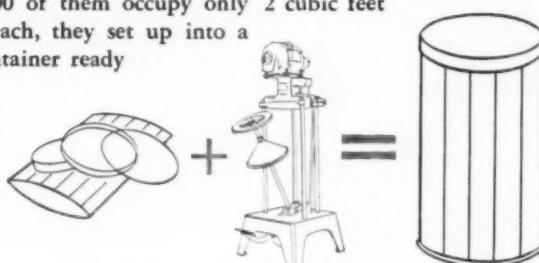


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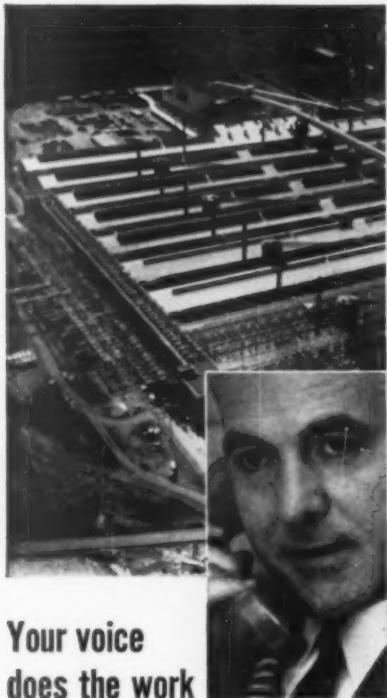
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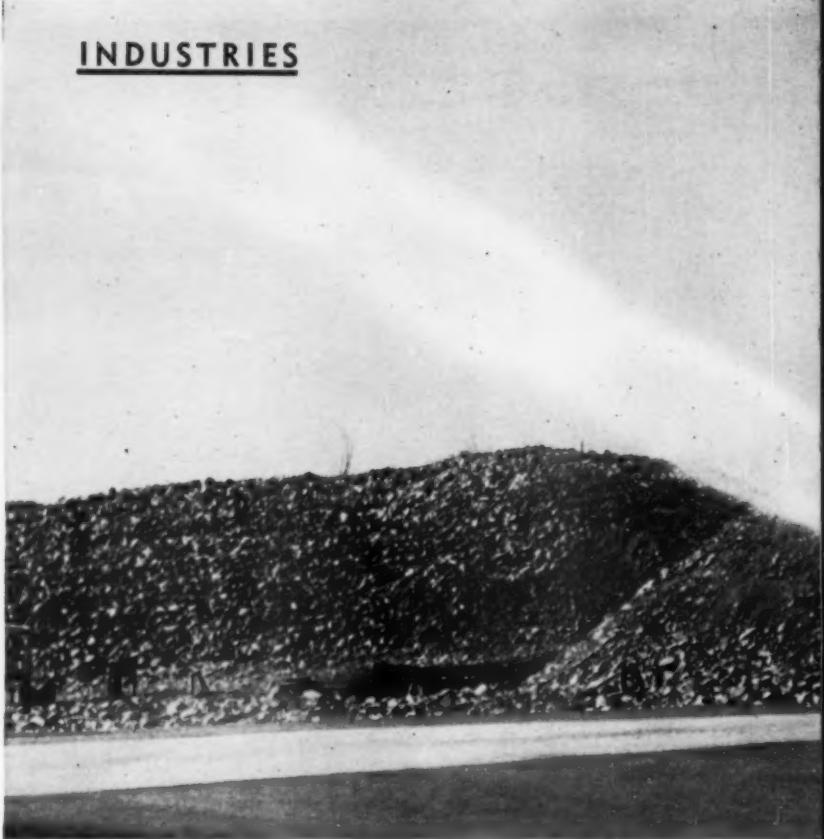
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TEST tries out a solid-fuel missile engine produced by Aerojet-General Corp., one of two leaders

Solid Fuels Come Up

Double technical breakthrough spurs rush of activity in a highly specialized industry—but big profits are still in future.

On the wall of one large room in the Navy Bureau of Ordnance hangs a chart that bears in minute detail the record of current progress and the schedule for future development of the Polaris, the Navy's 1,500-mile-range ballistic missile. This is the two-stage solid-fuel missile, due to be in production by 1960, that can be launched from surface ships or from submarines.

The Navy probably keeps watch over development of this missile more closely than any other weapon in its armory. And lately, on that Bureau of Ordnance chart, striking advances in the Polaris' development have been recorded. The chief among them: development of solid fuels that have as much thrust as any available liquid fuel; and, more important, development of a mechanical control that will throttle the solid fuel's rate of burning.

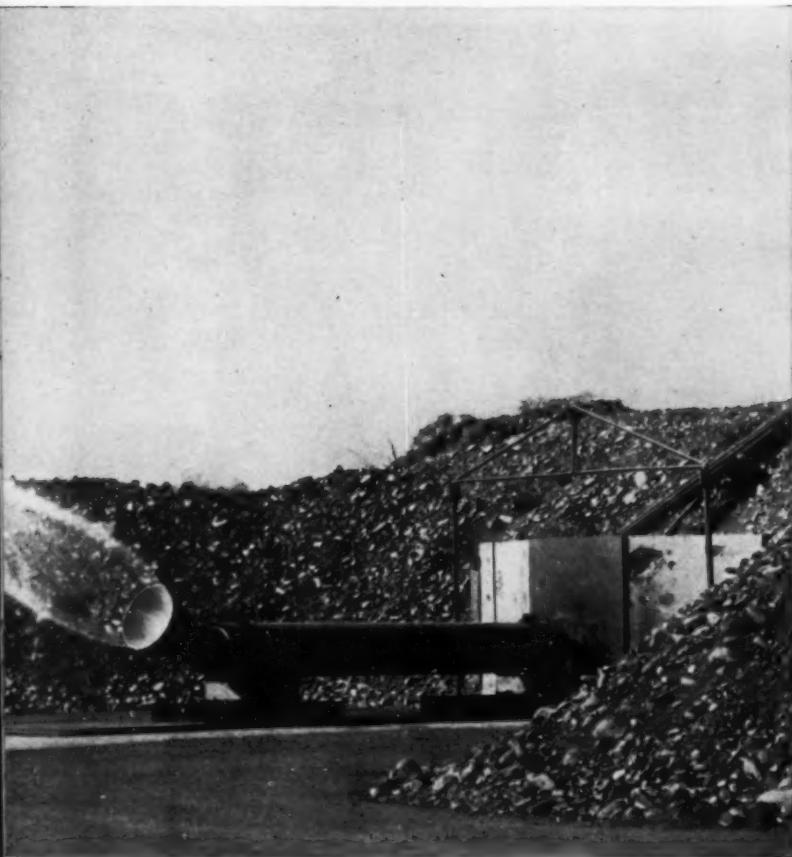
- What It Promises—Until now

IRBMs and ICBMs have had to be built around highly complex liquid-fuel engines. It takes at least two hours to prepare these engines for firing, and they cannot be fueled more than a few hours in advance of firing. To keep them in permanent readiness requires the constant preparedness of large teams of men at elaborate launching sites. But it has long been known that ballistic missiles powered by solid-fuel engines could carry their fuel in them from the time they left the production plants; that they could be fired at a few minutes' notice by small crews at relatively simple launching sites.

What prevented their development was the lower thrust of available solid fuels, and the lack of any means for controlling their burning rate. A variation in this by a second or less will throw a ballistic missile miles off course.

By no means all the problems of controlling solid fuel missiles are solved. But combined, the two major breakthroughs in the development of the Polaris are of high importance to more than the Navy.

Missilemen in all three services say now that the U.S.'s next "family" of



in this specialized field; other is Thiokol Chemical Corp.

Fast in Missile Race

missiles will be powered by solid fuel engines.

And, beyond the clear military gains, diplomacy too gets an advantage. Some have asked: Won't the Russians—and the uncommitted nations—looking at our vulnerable, slow-to-prepare, liquid-fuel missiles, suspect the U.S.' motives? Won't they reason that no country would rely on such weapons, based at such unconcealable launching sites, unless it intended to use them for aggression, not for retaliation? And won't this, in turn, tempt the Russians to strike? So Polaris' development promises also an improvement in the nation's posture.

• **Ferment in the Industry**—Now the reaction has reached back into the plants where this technological breakthrough originated. In the volatile missile industry itself the last few weeks have been even more hectic than usual, as companies in the solid fuel sector of the industry jockey for new financial and scientific power, as makers of liquid-fuel missile motors bid for a share in the solid fuel business, as outsiders seeking a dynamic investment buy into the smaller companies, as raw material

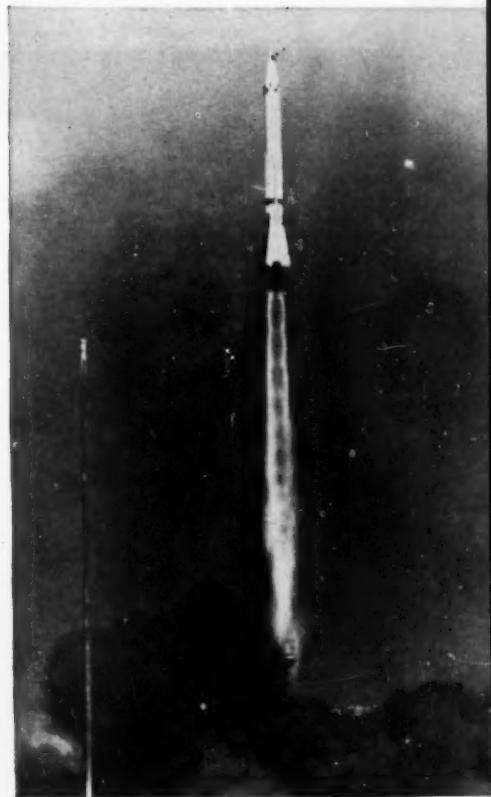
suppliers hunt for an opening in the more profitable business of producing the fuels instead of just the necessary basic chemicals.

Most are seeking more than merely to capitalize on the technological gains that have already been made. Another breakthrough lies ahead of them: The development of a new high-powered solid fuel for missiles. This now seems most likely to come as a boron-based fuel, though it could turn out to be a fuel based on the other light metals, lithium or beryllium.

I. Field for Specialists

Since the U.S. missile program began, the solid fuel sector of the industry has, by and large, been a field for specialists only.

Propellants for liquid-fuel missile motors are at present the products of the chemical and refining industries. Those that will soon be used—the boron-based liquid fuels—will require many more complex production steps, but at the moment many liquid fuels require only another one or two steps in production at chemical or refining plants. The



WEAPON: This is Sergeant, a 50-mile surface-to-surface solid-fuel artillery weapon built by Thiokol, at Redstone Arsenal.



PRODUCTION: Solid fuel is poured from a mixer through a purifier before molding at Thiokol's Elkton (Md.) plant.



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solid fuels, easier to handle after they're made, demand more complex manufacturing plants.

The solid fuels come in two basic types:

Double-base fuels, a mixture of nitrocellulose and nitroglycerine, with small amounts of other chemicals added to stabilize the mixture. There's little mystery about these fuels. They are offshoots of black and smokeless powder, and are best for use in small tactical rockets. In long-range defense they play no part.

Composite fuels, a blend of oxydizer and fuel. The oxydizer now used is usually ammonium nitrate, sodium nitrate, or ammonium perchlorate, and the fuel in which it is bound is synthetic rubber or polyester resin. This is the type that has been selected to propel the Navy's Polaris and the Army's 500-mile range Pershing missile. Until it is superseded by something like a high-energy boron-based fuel, this is the type of solid propellant that will contribute heavily to long-range defense and the conquest of space.

• **Fuel Core**—In the larger solid-propellant missiles, engine and propellant are almost one and the same thing. The solid fuel is cast directly into a container that is itself an integral part of the missile's frame. Before the fuel hardens, under curing, it is molded around a star-shaped core thrust into the center of the propellant container.

When the missile is fired, the fuel burns from this core to the outer edge of the container. The shape of the core can vary—because the more slender the points of the "star," the more rapidly those sections of the fuel will burn. And, of course, the more rapidly the fuel burns, the greater the missile's initial thrust.

II. Who Is Doing It

Two companies have long dominated this specialized sector of the missile industry. Aerojet-General Corp. and Thiokol Chemical Corp. have had by far the largest part in producing the solid-fuel engines for such medium-sized missiles as the Sergeant, Hawk, and Nike Hercules, and such short-range weapons as the Sparrow, Falcon, and Lacrosse. They have been most deeply involved in development of the Polaris' power plant.

Each also holds contracts for research and development on solid fuel missiles that remain classified or have yet to be made part of the missile program. Thiokol has been more the specialist in solid-fuel engines; Aerojet has worked both sides of the missile engine field.

Aerojet, 87.4% owned by General Tire & Rubber Co., had sales of \$144-million in 1956, and last year probably topped \$160-million. Its work on liquid



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fuels and engines outweighs only slightly its work on solid-fuel powerplants for missiles, and Aerojet's Vice-Pres. William E. Zisch expects the company's work in the two fields will balance by next year.

Thiokol had sales of \$21-million in 1956, finished 1957 with \$29.5-million in sales. Some \$22-million of this came from defense work, the largest part of that from cost-plus-fixed-fee contracts. Thiokol operates two plants at the Army arsenals at Redstone, Ala., and Longhorn, Tex., and has four other plants of its own, including a new \$3-million one at Brigham City, Utah, where it has tested a solid-fuel engine that reportedly holds almost 10 tons of propellant.

- **New Contenders**—These two companies still lead the field. But since the start of this year corporate realignments and agreements have set up new contenders. Among them:

- Astrodyne, Inc., has been set up as a jointly owned subsidiary of North American Aviation, Inc., and Phillips Petroleum Co. It will concentrate on solid-fuel missiles.

- Grand Central Rocket Co., specialist in solid-fuel missile work, is being acquired by Tennessee Gas Transmission Co.

- **Aims of Realignments**—These deals are prime examples of the two major reasons for the realignments that are taking place within the industry. North American's joint ownership, with Phillips Petroleum, in Astrodyne is a linking of scientific knowledge and engineering technique. North American, primarily an airframe builder, holds major contracts for three of the U.S.' five long-range missiles. All of these are presently powered by liquid-fuel engines.

Phillips has for years built solid-fuel JATO (jet-assist takeoff) units, and more recently has had Defense Dept. contracts for large solid-fuel missile engines. The aim of the two companies is to transfer to Astrodyne the solid-fuel contracts now held by Phillips. This, say some industry observers, should put North American in potentially one of the strongest positions in the missile engine industry. Hypothetically, anyway, it gives North American strong bidding power if solid-fuel missiles ever replace the Jupiter, Thor, and Atlas.

Grand Central's sale to Tennessee Gas Transmission is reckoned in the industry as a smart investment on the part of TGT, the nation's sixth largest utility company. And while TGT gains an investment, Grand Central gains a large and steady source of financing, something it has always lacked. Last year, Grand Central's sales totaled about \$10-million.

- **Active Leaders**—While these new combinations of scientific knowledge and financial power have been formed,



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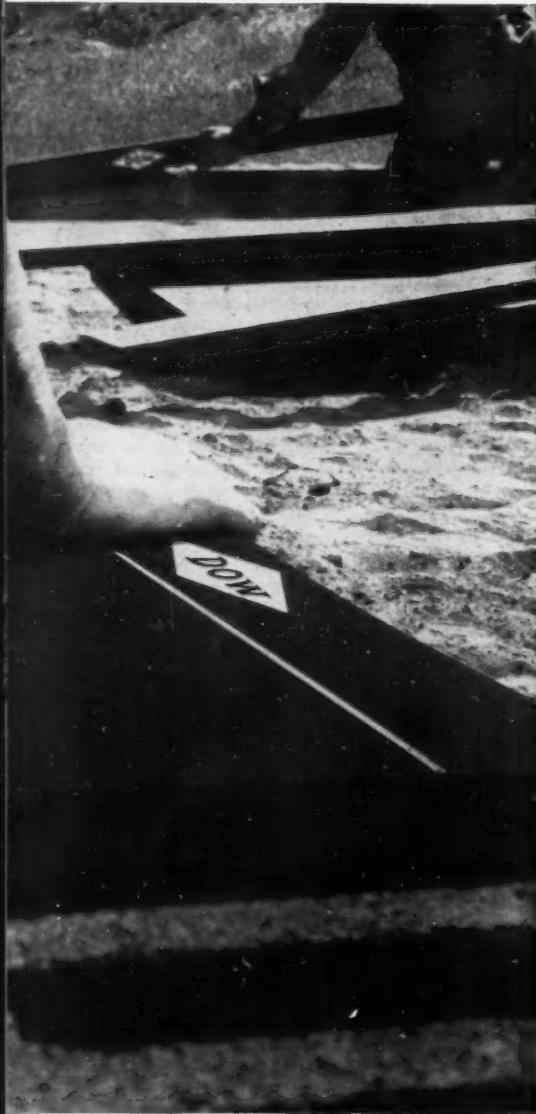
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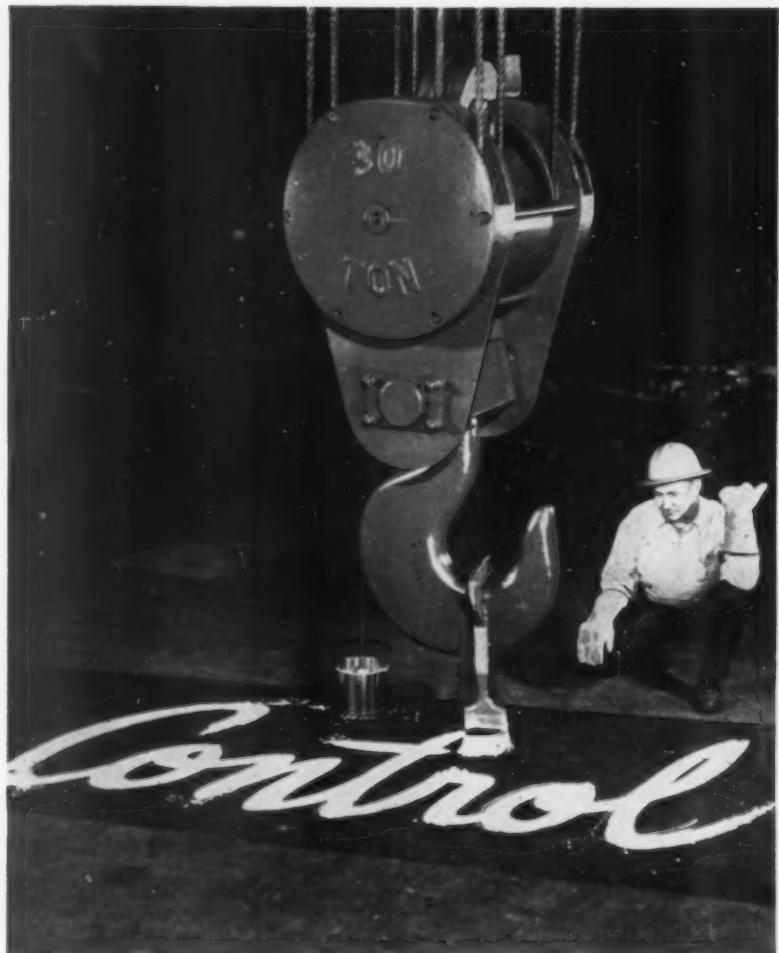
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**MANNING,
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the two leaders of the industry haven't been tarrying.

Aerojet has formed a partnership with Stauffer Chemical Co.—one of the nation's three producers of borax, the raw material of boron—to develop boron-based fuels.

Thiokol, through an exchange of stock, is acquiring Reaction Motors, Inc., a liquid-fuel engine maker that was formerly held 49% by Olin Mathieson Chemical Corp., and 20% by Laurance Rockefeller. From this, Thiokol gains RMI's liquid-fuel engine knowledge. In another deal made last month, Thiokol has arranged a "working agreement" with Callery Chemical Co. They'll work together to develop a high-energy solid fuel, presumably based on boron, since Callery is soon to produce a liquid boron-base fuel.

- **Pushing In**—Beyond these, there are at least a dozen more companies, most of them less specialized in the missile industry, that are pushing into the solid-fuel field.

Hercules Powder Co., since World War II, has operated several Army and Navy ordnance plants, turning out small battlefield-type rockets. More recently it has been producing the Honest John, a 20-mile-range missile, at Radford Arsenal in Virginia, and at the Navy's ordnance plant, Allegany Ballistics Laboratory. Hercules is working on research and development of a boron-based solid fuel.

Atlantic Research Corp., contractor for several small booster and auxiliary solid-fuel motors for missiles, as well as two complete research rockets, is hunting, too, for a new high-powered solid fuel. Olin Mathieson, at its laboratories at North Haven, Conn., at a pilot plant at Niagara Falls, N. Y., and at the Ordill (Ill.) Ordnance Factory, has much the same goal.

B. F. Goodrich's Aviation Products Div. has bought a plant at Rialto, Calif., where it is just about ready to produce solid fuels for missiles. A three-part outfit called AFN, Inc., has been set up by American Potash & Chemical Corp., Food Machinery & Chemical Corp., and National Distillers & Chemical Corp. Working through AFN, these three will share knowledge and costs in their attempts to develop new solid fuels. And at Anaheim, Calif., the nation's biggest producer of borax, U.S. Borax & Chemical Corp., is spending increasing amounts at its year-old research establishment where its chemists are also seeking high-energy fuels based on boron.

- **Costs and Results**—Military contracts cover the costs of almost all this research work. How much has it all cost? The answer is classified. But it is known that the researchers have at least produced solid high-energy fuels in laboratory batches, and that the engineers and

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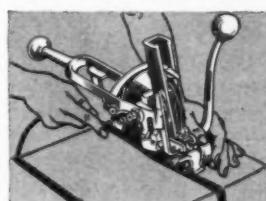
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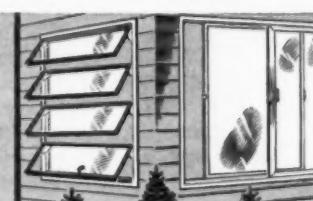
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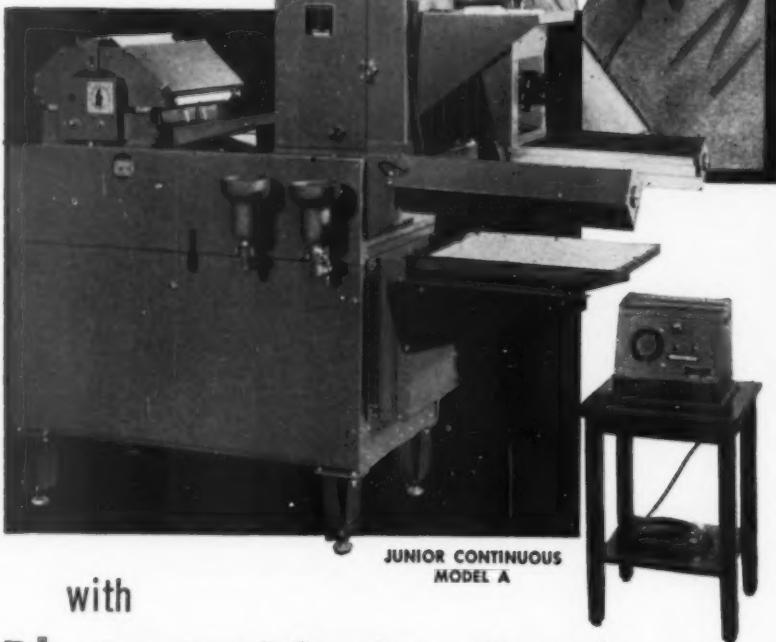
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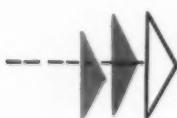
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chemists are now testing techniques for producing the fuels in pilot plant quantities.

And alongside the work on the propellants themselves, other researchers in the industry are testing new shapes and sizes of missile airframes, seeking the best designs for use with the new fuels.

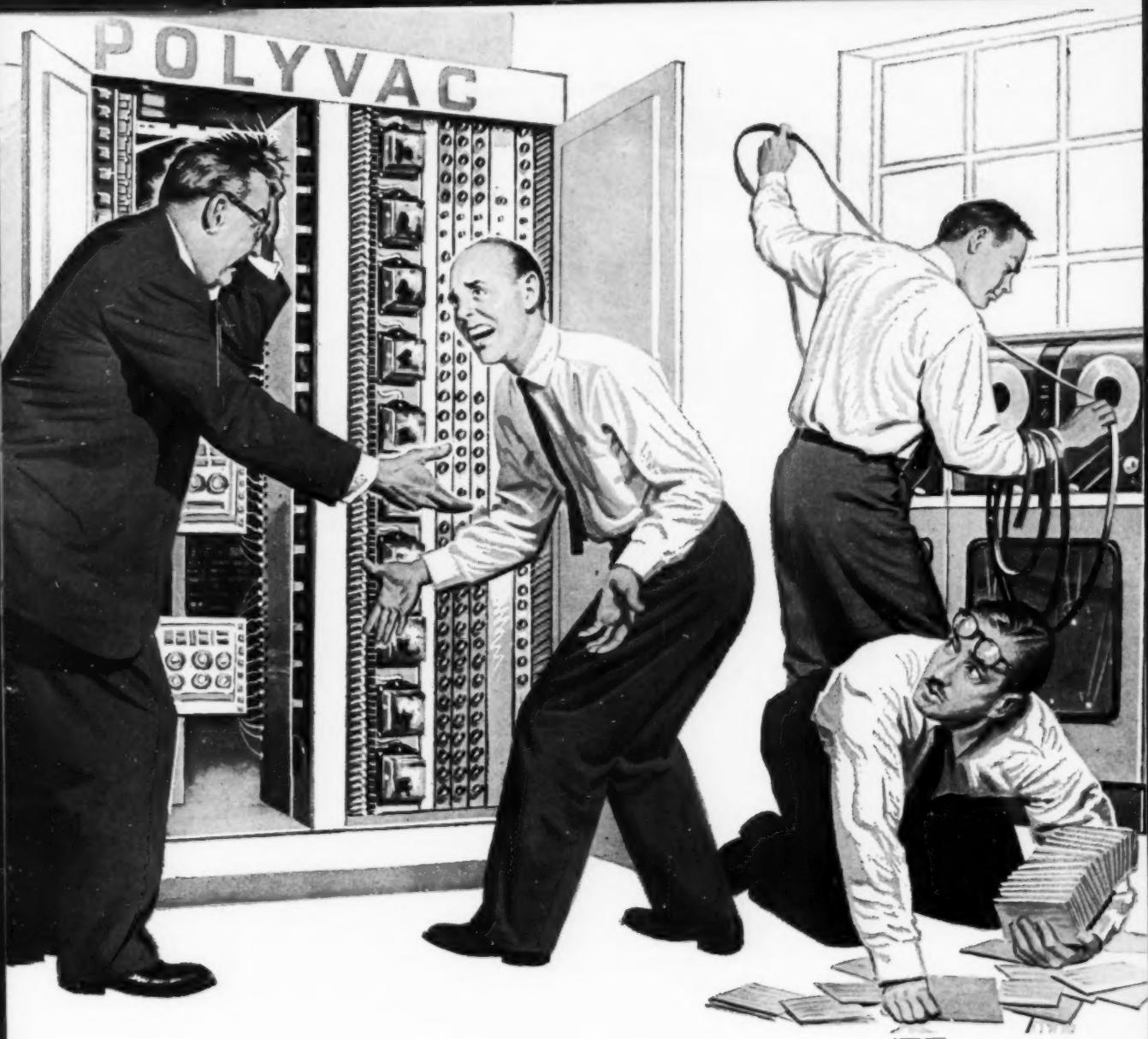
III. Outlook for Profits

For all the new interest of large companies in the solid fuel business, it is not yet a highly lucrative field. Almost all the money spent in the business today comes from research and development contracts, and only rarely does any industry profit much in cash from these contracts. On its \$22-million worth of defense contract work last year Thiokol's Pres. Joseph W. Crosby says his company made slightly less than 3% profit.

For the future, there's still a clash of opinion on how far solid-fueled missiles will replace the nation's present liquid-fueled ones. Month by month, as new technological developments come, the clash grows quieter, and increasing numbers of military and industry leaders agree that solid fuels will share about equally with liquids in powering U.S. missiles. But this doesn't necessarily mean that better profits are likely after 1960, say many industry observers. As one missile company official puts it: "We have to hope, paradoxically, that the major part of our work will still be in research and development. You can say that if full-scale production of large missiles ever becomes far and away the major part of our work, we'll be on the edge of war."

• **Commercial Sidelines**—To most industry observers it seems unlikely that commercial applications of the solid fuels will help defray any of the cost of their military uses. There are a few commercial applications for the fuels; they are used, for instance, in small cartridges that can be attached to fishing lines to help surf casters get their lures out where the fish swim (BW-Oct. 27'56,p135). Jet-assist take-off units are used on some commercial airplanes that fly from high-altitude airfields in Latin America. Markets like these are infinitesimally small.

But perhaps there's an opening for their volume use in space-age advertising. Only a few weeks ago, representatives of a national weekly magazine sought out a missile maker, asked him whether his company could, for \$500,000, shoot up a rocket 100 miles or so and put into orbit a 20-ft. wide balloon emblazoned with the name of the magazine. The legend on the balloon would be visible through a medium-power telescope. Says the missile maker: "They were quite serious about it, too." END



The day the brain lost its head

Such excitement—the day our firm took delivery of Polyvac! According to Mr. Ackish, our head accountant, this Giant Brain could do just about anything in the world except warble "Oh Promise Me."

"Payrolls! Billing! Inventory and sales analysis!" he exclaimed. "She'll cut corners all along the line."

Ackish didn't mention it, but he'd done a little corner-cutting himself. Seems he had picked up a "good enough" power feeder cable

instead of the Okonite cable the engineers had wanted. Polyvac, they had pointed out, gulps a lot of juice.

Well, Polyvac gulped a little too hard one hectic day while rushing out a bid for a big construction project. Ackish's "good enough" power cable wilted and died, leaving us with our bid stuck in the works and a backlog of seven other big jobs to go.

We'd probably have lost the contract, and we'd *still* be cleaning

up the figures, if Okonite hadn't come to our rescue. While Ackish was on the President's carpet, pleading thirty years of faithful service, they were installing an Okonite cable and starting Polyvac up again.

That night, Polyvac suddenly shifted gears and printed out—500 times: "Where power supply is important—dependability comes first."

That's one reason why our entire plant is being rewired with Okonite.



where there's electrical power...there's **OKONITE CABLE**



You wouldn't buy a bolt, wait until you needed it, and then go look for a nut to fit it. If you need one, you know you'll need the other.

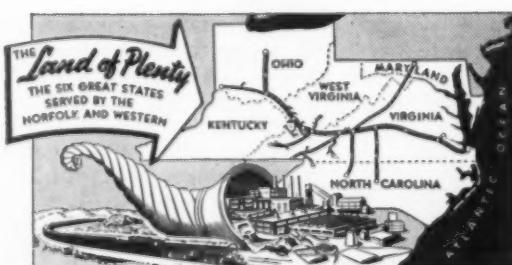
If you decide to build a new plant, start the search for a site at the same time. Plants and plant sites are like nuts and bolts . . . you need them both, and they have to fit. Architects and builders can make them fit — *up to a certain point*. Unfortunately, they can't build manpower, nearness to markets and other vital industrial factors into your plant. So finding the right location is basic *groundwork* in more ways than one. Plan your plant from the ground up. Don't wait until you're ready to build to look for a place to build — *especially when it costs you nothing to have a skilled plant location team do your groundwork*.

**Plan your new plant
from
the
GROUND**

N&W plant location specialists are at your service. They work quickly, quietly and without cost or obligation. They know their job — and you may be surprised how helpful they can be if you'll give them your confidence and tell them what you need.

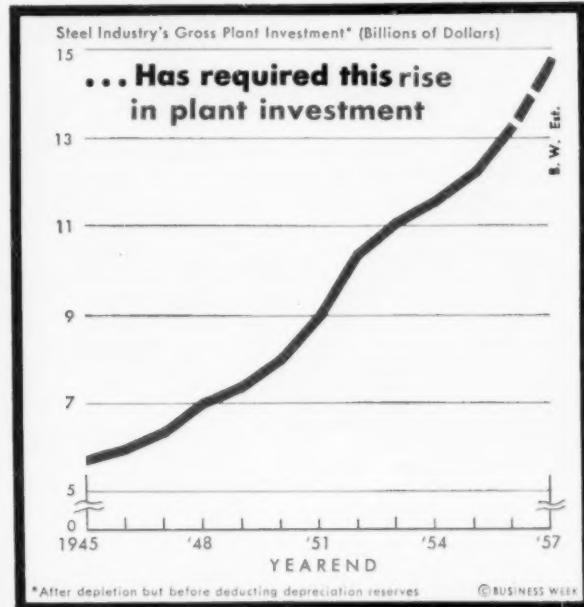
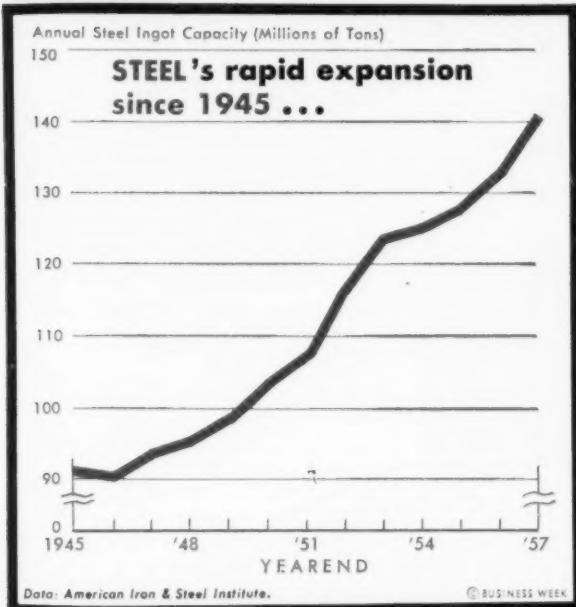
Write, wire or phone:

L. E. Ward, Jr., Manager
Industrial and Agricultural Dept.
Drawer B-749 (Phone Diamond 4-1451, Ext. 474)
Norfolk and Western Railway
Roanoke, Virginia



Norfolk and Western
RAILWAY

FINANCE



Fast Write-Offs Begin to Hurt

For four years, accelerated amortization has been lowering apparent earnings, but also cutting taxes and saving funds for reinvestment. Now the certificates are running out. Steel companies will retain less earnings.

After four years of high living, the steel industry is starting, this year, to pay for its party.

For example, it will have as a pre-tax amortization charge-off this year only about 57% as much as it enjoyed last year. Next year, it will have less than a third as much as it had in 1957.

- **Appearances**—Ironically, this may not necessarily be all bad. Here's why:

- Steel's sales and profits plainly are going to be down in 1958. Automatically, the much lighter pre-tax charge-off will make earnings look better than they would had amortization remained at 1957 levels.

- In 1959, steel expects once again to have a less-than-record year, since almost inescapably it will have a strike. So again, a drastically lighter pre-tax amortization charge-off will make earnings appear better than they otherwise would.

I. Paying the Piper

Even so, steel will have considerable of a hangover. Those lower amortization charges will breed higher federal tax bills. Money that has been staying untaxed in the cash drawer will be carried down to operating profit—taxable

at 52%. What's left after the Treasury collects will be subject to the steel industry's average dividend payout of about 43%. The cash that remains, therefore, will be scrawny indeed, compared to what the industry has had available since, say, 1953.

There's nothing esoteric about all this. More and more of those five-year certificates of accelerated amortization—with which the U.S. underwrote the vast industrial buildup of the Korean War—are expiring.

There are no official steel industry totals, but responsible calculations indicate that steel was allowed to write off \$2.3-billion to \$2.5-billion worth of new plant.

- **Time Span**—The first of it was charged, somewhat retroactively, in 1951. The last of it will run out in 1961 or only a very few months thereafter. At its peak in 1956, steel charged off probably \$385-million pre-tax in fast amortization, or about 12 times its 1951 accruals. The step-down between 1956 and 1960 will be even faster than the rise was.

On a gross basis, steel is believed to have got about 10% of the \$384-billion worth of certificated projects allowed to all industry. And the amount steel

was allowed to write off over five years is estimated at 65%—a little more than the all-industry average of 60%.

- **Average**—That all this has been vital to steel expansion is self-evident. In the last seven years, steel has added 36.5-million tons of new capacity. That new plant has averaged \$205 per ingot ton. The cash accruals from accelerated amortization through 1957 appear to have averaged about \$51.50 per ton.

Hence, you might say that the U.S. taxpayer, by what amounted to interest-free loans, financed between an eighth and a quarter of the Korean steel build-up. Now steel, in effect, is repaying those loans. Even a schoolboy can foretell that it's going to pinch steel's cash flow to do so.

II. How to Temper the Wind

All this is old stuff to steel's accountants and financial men. For years, even though they were generating unprecedented amounts of cash, they've been worrying about the great anomaly that now sets in, namely, a cash shortage at a time of rising earnings.

Naturally, these people have done more than worry; they've been scratching their heads for an out—or at least a way of minimizing the impact of declining accelerated amortization.

On this score, Congress was helpful, indeed, when it wrote the Revenue Act of 1954. Therein, it permitted steel and other industries either or both of two new methods of depreciation accounting on plant installed after Jan. 1,

Men who build for the future choose TRION clean air

T. M. Evans, Chairman, H. K. Porter Company, Inc. tells why he chose Trion for his company's new building



"We chose Trion Electronic Air Cleaners to keep our building new, clean and modern . . . and reduce cleaning and painting expense"

T. M. Evans worked in Trionized air in the Porter offices in the Alcoa Building. He knew how Trion practically eliminated airborne dust, dirt, smoke, soot, pollen and germs. He saw how it kept walls, ceilings and furnishings new-looking longer. He chose Trion for his company's new building.

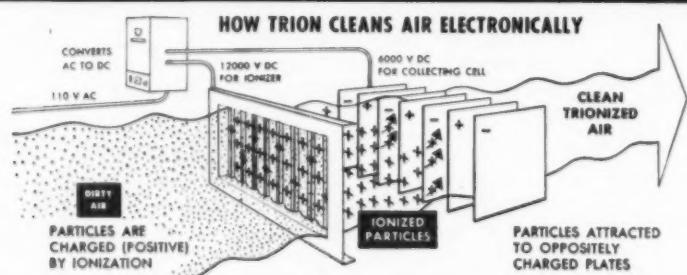
TRIONIZED AIR IS MORE THAN FILTERED AIR

Trion is more than a filter. It electronically traps even sub-microscopic airborne particles, washes them automatically down the drain. Find out how Trion adds to the value of your present or new business buildings; cuts housework and adds to your comfort at home.



The Porter Building, Pittsburgh, Pa.
Archts: Harrison & Abramovitz
Mech. Engrs: Jeros, Baum & Bolles
Mech. Contr: Limbach Co.
Gen. Contr: George A. Fuller Co.

Any building benefits from Trionized air. Trion cleans air in hospitals, hotels, schools, office buildings, food plants, homes and other buildings throughout the world.



Trion removes practically all airborne particles, even the damaging "invisible" ones as small as 1/2,500,000th of an inch. (By National Bureau of Standards Dust Spot Test.)

THE TREND IN MODERN BUILDINGS IS
TO TRION ELECTRONIC AIR CLEANING

Look in Yellow Pages under Filters-Air or write:

TRION, INC.

McKees Rocks, Pa.

In Metropolitan Pittsburgh

Trion (Canada) Limited • 212 King St. West, Toronto 1, Ontario



1954. Known respectively as the "sum of the digits" and the "double declining balance" methods, these two devices have one important attribute for steelmen, which can't be had from conventional straight-line depreciation: Either will yield steelmakers a cash-generation rate almost half as great as the industry enjoyed under accelerated amortization.

• Widely Used—Because these devices permit a faster cash recovery—which is a whale of a help during inflationary times—as well as higher pre-tax charge-offs in early years, the steel industry, quite widely, has adopted one or the other.

Somewhat to the industry's dismay, however, United States Steel will have none of them. Actually, it has very tiny amounts of property under each method. No doubt that was done experimentally to see exactly how each method fits its concept of proper depreciation accounting. Aside from that technicality, though, the Corporation has spurned both devices. While its present philosophy exists, it will continue to do so.

• Big Steel's Stand—This insistence may seem bizarre in view of the Corporation's long-term campaign for federal depreciation relief. Actually, that's exactly what's at the bottom of it all. You might explain it this way:

• To most steelmen, depreciation relief means the right to charge-off property at much faster rates than long traditional in this country. The two new methods legalized in 1954 are welcome steps toward this end. But for any number of reasons, most steelmen believe they need and deserve even more.

• To U.S. Steel, on the contrary, depreciation relief means the right to recover purchasing power, not merely dollars. Times without number, it has explained that the recovery in, say, 1947 to 1957, of the dollars invested in, say, 1932, is a dangerous hoax—simply because those dollars won't begin to replace now the equipment they bought then.

This concept, variously known as "economic depreciation" or "current value depreciation," is one that makes the hair of many an accounting purist and tax theorist stand right straight up on end. Still, the Corporation clings to it as an article of faith. The mere fact that it hasn't even begun to win its battle has only intensified its fight.

III. The Newest Remedy

At least half a dozen specific methods have been proposed for permitting "economic depreciation" while still preventing it from becoming an outright raid on the U.S. Treasury. The one about which most technicians—outside Washington, anyway—are talking these

New battery portable lets you dictate anywhere

(operates for only 5¢ an hour) *



* Lowest operating cost... batteries you can buy anywhere... big machine performance... they're yours in this exciting new transistorized dictating machine, the SoundScriber 200-B.

Ready to ease your work load, too, are SoundScriber's famous "green discs." They mail in standard or hotel envelopes, without stiffeners... transcribe without re-recording... play on home phonographs.

For full details, call your local SoundScriber office. Or fill in the coupon below, attach to your letterhead and mail today to: The SoundScriber Corporation, Box 1941, Dept. B-2, New Haven, Conn.



ONLY 200-B HAS ALL 3

1. Six Pounds—Book Size
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WORLD'S FIRST COMPLETE AND COMPATIBLE DICTATING SYSTEM



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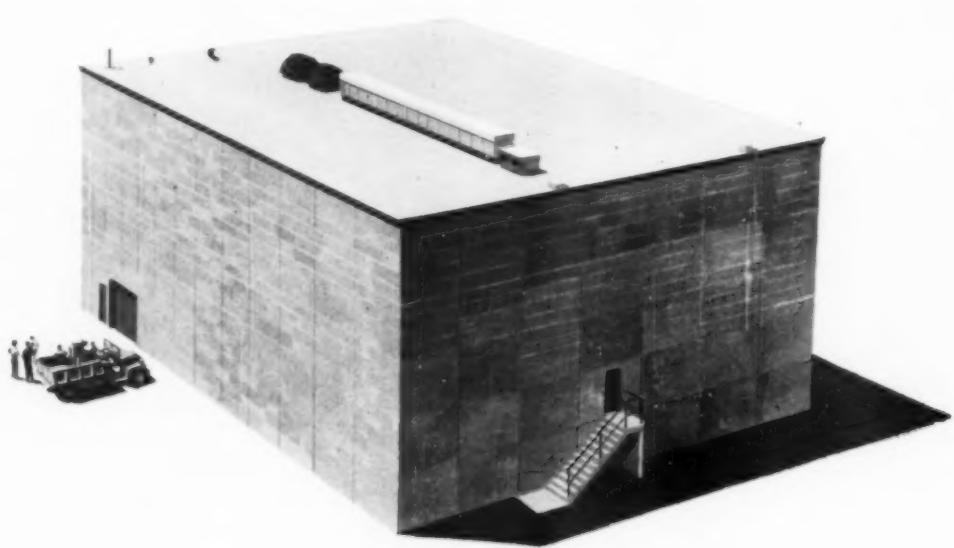
3 Disc Versatility

Yes, I want to know more about the SoundScriber 200-B

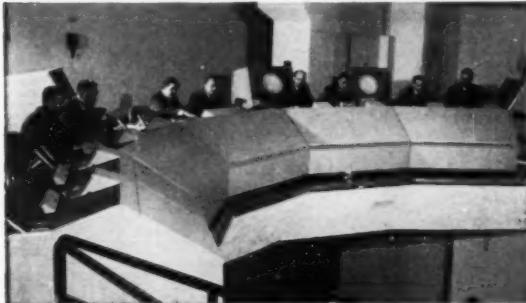
NAME _____

Please attach to company letterhead and mail to: The SoundScriber Corp., Dept. B-2, Box 1941, New Haven, Conn.

This windowless building sees all, knows all

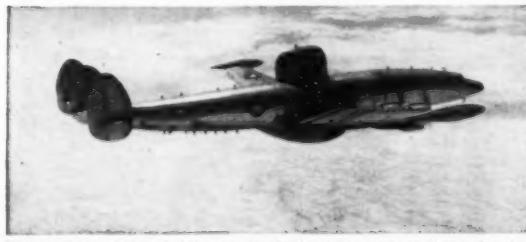


This four-story concrete blockhouse contains a unit of the SAGE system. SAGE—short for Semi-Automatic Ground Environment—is a master weapons control system. It is our nation's best insurance against surprise attack by air.



At each SAGE Direction Center officers can evaluate all action within their defense area and can quickly plan the strategy of counterattack.

In each windowless SAGE blockhouse is a huge electronic computer. Receiving information from a far-flung network of sources, the computer assembles reports—on as many as 30,000 separate air flights per day—and commits these facts to memory. In the event of enemy aggression, SAGE can identify the enemy planes, calculate their speed, range and direction—and then select measures of defense or counterattack. This blockhouse, and others like it, feeds information to the Combat Operations Center in Colorado Springs where all U.S. and Canadian military might is co-ordinated.

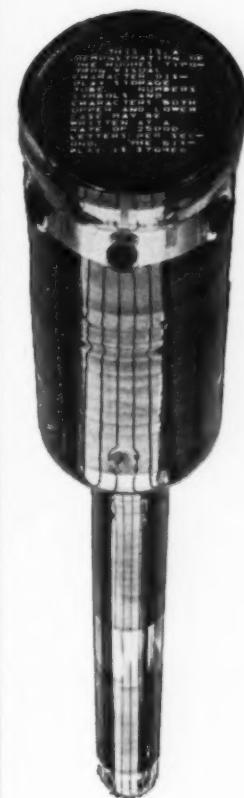


Flying radar stations patrol inaccessible land and sea areas to help in keeping an electronic vigil over the North American Continent.



Testing of each TYPOTRON tube is so exacting that much of the visual inspection must be done with a powerful magnifying glass.

The TYPOTRON tube displays information in the form of letters and symbols.



One important component in the SAGE system is the Hughes TYPOTRON® tube. Its function: to display and store information gathered by radar and fed through a digital computer. Developed by Hughes at the request of the U.S. Air Force, the TYPOTRON tube is basically a high-speed read-out device (25,000 characters per second) which can also present data for extended periods of time. The TYPOTRON tube, in its critical SAGE role, has established an outstanding record of reliability.

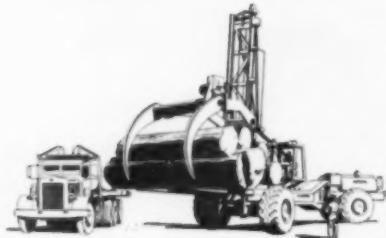
Other Hughes components are also used in the SAGE system. In each SAGE computer, for example, there are thousands of Hughes diodes. These diodes act as traffic controls in directing a myriad of computations through the computers.

These display tubes and diodes have not only military but also commercial applications. We at Hughes produce a wide range of electronic systems and components. Drawing on our extensive experience, we may be able to help with your problems.

Creating a new world with ELECTRONICS

HUGHES PRODUCTS

© 1958, HUGHES AIRCRAFT COMPANY
International Airport Station, Los Angeles 45, California



Electric Elephants

Handling of materials is a vital part of manufacturing costs. This is especially true when materials have to be stored outside and space required does not permit your yard to be completely covered with a concrete slab. That's the way it is in mining and logging, and in a number of other industries.

Take the sawmill business for example. Our market research turned up the fact they needed a machine which could unload and handle a standard 25-ton truck-load of logs in one bite.

Machines rated at this capacity were available, but their small, high-pressure tires mired down hopelessly in the muddy yards. Then, too, their capacity rating was calculated at a point so close to the front wheels that they couldn't pick up the 25-ton loads at the work reach required. The only other equipment available was the slow, cumbersome tread machines whose tracks were so costly to maintain, and which were not designed for such purposes.

Of course, in some countries real live elephants have been used, but they aren't dependable enough or strong enough, and certainly not available enough to do this job. Our answer is an *electric elephant*. Research showed us the need for several sizes, so we make them with outdoor-work capacities ranging from 22 to 50 tons!

In a mill yard, a giant truck rolls in from the woods, with a fifty-ton load for transfer to a rail car. As the brakes screech to a halt, an electric elephant moves across the yard up to the side of the load, and with infinite speed control (no gears to shift) slips its forks under the load and clamps its tusks over the top and down the back side. Squeezing the

entire load in the grip of its arms, the monster gently lifts the load as if it were a sleeping babe, and swings around through the mud to place the logs on a flat car or in a storage pile. Time and distance are saved by piling them high.

We call this electric elephant a Log Stacker. Actually it's a giant fork truck mounted on huge rubber tires — 7½ feet high. Forks run up and down the tilting mast and powered tusks encircle the load. Tusks can also have an extra powered joint if desired, to help in picking off single logs. Our field researchers have come up with other assignments which required different attachments, so if your "elephant" needs a specialized "trunk," just let us know.

The Stacker in a muddy yard during bad weather is something to see. Empty or loaded, it plows through mud, snow and over bumps and ruts as if something else were pulling it.

Its tremendous power comes from big DC electric gear motors that drive every wheel. Controls are electric, too. They let you handle 25 or 50 tons with about as much effort as you need to flick on a light switch.

Summing it up, our Stacker replaces an average of 5 men and 3 machines on a job, because it's made-to-order for this kind of work. With minor modification it may be made-to-order for your work, too. If you'd like to consider it, you might start by sending us information about your operation, or by writing for case histories we've filed from the lumber and pulp business. You also might enjoy our new sound film "Fingers of Steel."

Your materials handling problems may need *big* answers. If so, we'd like to help.



by R. G. LETOURNEAU

days is one that is labeled "reinvestment depreciation." It was proposed to the House Ways & Means Committee recently by Maurice E. Peloubet, a partner in a New York accounting firm with the Dickensian name of Pogson, Peloubet and Co. The gist of it is this:

- In the year when a depreciable asset is retired, its owner shall be permitted to deduct an amount equivalent to the difference between the accrued depreciation on that asset and the amount it would cost him to replace it.

- The owner would be allowed such a one-shot deduction only if—and after—he had in fact committed the reinvestment, in depreciable property, of an amount equivalent to the replacement cost of the retired asset. That is, if he didn't reinvest, he would charge off no more than his original depreciable investment.

- His depreciation base for the reinvested capital would be only his original depreciation base. It would include none of the one-shot allowance made on retirement and reinvestment.

The plan, which has been researched in almost stupefying detail, is based on extensive data from the brass, cement, paper, and steel industries, all of which have a high proportion of long-lived equipment and a high ratio of investment to sales.

- **Measurement**—On that basis, Peloubet asserts that the maximum allowance for reinvestment depreciation in any year would total between \$2-billion and \$2.5-billion. That's about equal to the excess of accelerated amortization over normal depreciation charge-offs in the heaviest year of that program.

And reinvestment depreciation, Peloubet adds, would be available to any eligible taxpayer, not merely to selected, defense-connected industries, as was the case with accelerated amortization.

Some students of amortization describe "reinvestment depreciation" as an extreme form of fast write-off, with the proportion to be charged off depending on the fluctuations of the price level. And they raise the question of what will happen in a time of falling prices, since on the face of it the stimulus to building new plant would be weakest in time of depression and a falling price level, precisely when the need is greatest.

- **The Returns**—As for Congress, there are no signs that the Ways & Means Committee likes the idea any better than in 1954, when it slapped it down hard. A principal argument against the plan is that it gives protection against inflation to one form of capital—industrial equipment—while leaving other forms, such as pensions, out in the storm. But if all kinds of capital got the same kind of protection, the net effect might be perpetual inflation. **END**



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But the search for new and improved polymers goes on daily in Goodrich-Gulf's Developmental Laboratories. Polymers of lighter color. Polymers with new physical properties to meet new applications. Polymers in crumb form for

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Our Products—A complete range of man-made rubber polymers: hot polymers in bale or crumb form, cold non-oil polymers, cold oil-extended polymers.

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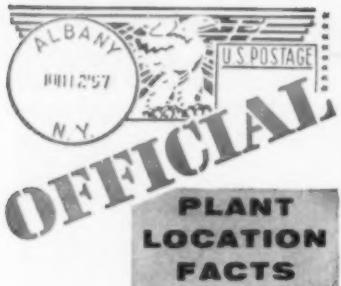
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Before you decide on a new plant site, what data on components or other materials do you need?

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- Costs?

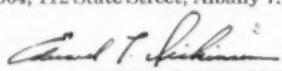
The New York State Department of Commerce stands ready with a professional, long-experienced staff to give you a tailor-made analysis of the availability of materials at any New York State location.



But components are only one of your factors. What about

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Let us answer your questions. Write for "Industrial Location Services," a free booklet that tells what we can do for you. Send your request to me at Room 564, 112 State Street, Albany 7.


EDWARD T. DICKINSON
Commissioner of Commerce

How Companies Are Meeting Dividends

	For 1957	Last	Pay Out was This
	Dividend Per Share	Quarterly Dividend	Percent of Earnings
		Third Quarter	Fourth Quarter
Acme Steel	\$2.00	83%	** \$0.25 48% 114%
Allegheny Ludlum Steel	2.00	66	0.50 98 100
Allied Chemical & Dye	3.00	69	0.75 69 71
Allied Mills	*	*	0.50 76 79
American Can	2.00	74	0.50 43 161
American Viscose	2.00	121	0.50 192 278
Archer-Daniels-Midland	*	*	0.50 70 89
Atlantic Refining	2.00	56	0.50 122 77
Beaunit Mills	*	*	0.37½ 125 121
Caterpillar Tractor	2.40	55	0.60 56 240
Container Corp.	1.00	74	0.25 76 86
Copper Range Co.	1.00	87	** 0.12½ -0- 312
Crown Zellerbach Corp.	1.80	68	0.45 62 71
Diamond Alkali	1.80	71	0.45 82 180
Gillette Co.	2.25	80	0.50 63 82
Int'l. Minerals & Chemical	*	*	0.40 143 118
Jaeger Machine	*	*	0.28 55 127
Johns-Manville	2.00	80	0.50 63 104
Jones & Laughlin Steel	2.50	44	0.62½ 43 81
Kennecott Copper	6.00	82	1.50 103 115
Koehring Co.	1.00	86	0.25 70 DEF.
Meredith Publishing	*	*	0.45 55 150
Monsanto Chemical	1.00	60	0.25 61 104
Mueller Brass	2.00	88	0.50 82 DEF.
Poor & Co.	2.00	72	0.50 104 174
Rome Cable Corp.	*	*	0.35 56 85
Sharon Steel	3.00	81	0.75 394 75
Spencer Chemical	2.40	58	0.60 97 111
Standard Oil (N.J.)	2.25	56	0.55 55 79
Sutherland Paper	2.00	68	0.50 77 104
Symington-Gould Corp.	0.80	80	0.15 88 125
The W Shovel	1.60	84	** 0.20 87 91
Transue & Williams	1.25	53	0.25 DEF. 104
Union Carbide	3.60	81	0.90 80 89
Union Twist Drill	*	*	0.50 70 152

* Fiscal year does not correspond with calendar year

** Lower rate than prevailing up to recently

NB: Last quarter earnings actually reported or as indicated

© BUSINESS WEEK

Payout Ratio Edges Up

That's the dark side of a dividend picture that saw 1957 set the record high.

Stockholders, taking a quick glance at dividends for 1957 as a whole, may well feel a cozy glow. For the 12-month payout, according to the Council of Economic Advisers, adds up to something like \$12.3-billion—the highest ever and a good 3.3% above the previous champion total, 1956's \$11.9-billion.

But to get the cozy feeling, the glance has to be a quick one. If you look a bit closer, you note that there are some ominous cracks in the fiscal plaster (BW-Dec. 14 '57, p81). And if you try a look at the tabulation above, you'll see that the fat payouts were bolstered in the fourth quarter by an

alarmingly high ratio of dividends to earnings. Among the other unpleasant aspects of the dividend scene were these:

• December, which usually accounts for about a fifth of the whole year's dividends, was very disappointing, falling something like \$100-million behind the 1956 month, with most of the damage coming to year-end extras and specials.

• Payments so far in 1958 have been just as disconcerting. Cuts in January were the most numerous for the month in years; one compiler noted 19 omissions and 30 reductions for the month, compared with only five of each a year earlier. And there's no sign at all that things will improve this month or next.

The uncertainties now besetting dividends are blamed largely on the



Efficient and economical Sea Water Distillation Systems by Emhart's subsidiary, The Maxim Silencer Company, provide inexhaustible water supplies for human and industrial uses.

NOW FAMILIES CAN DRINK SEA WATER

People in arid areas now have, in the seas around them, vast reservoirs of fresh water — thanks to Emhart-Maxim distillation equipment.

Emhart is creating roads to progress in many other fields. Below are some examples. Perhaps we can help you mount a major break-through in your business. For background on our scope, please write for "Emhart — Its People and Products."



EMHART

EMHART MANUFACTURING COMPANY, HARTFORD 2, CONN.

Emhart Export Company, Hartford
Emhart Sweden AB, Stockholm

AB Sundsvalls Verkstader, Sweden
Emhart International S.A., Panama

EMHART NOISE SUPPRESSORS ADD A QUIET PLUS TO EFFICIENCY



EMHART PACKAGING MACHINERY AUTOMATES THE PACKERS' LINES



EMHART MACHINES ARE STANDARD OF GLASS CONTAINER INDUSTRY



EMHART SKYWORKERS RAISE MEN TO NEW LEVELS OF EFFICIENCY



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increasingly serious deterioration of corporate earnings in the past few months (BW—Feb. 15 '58, p.55).

• Who Gets Hit?—Up to now, the worst blows have been suffered by marginal companies in cyclical industries. But the trouble has by no means been confined to the weaker outfits. Even in the noncyclical trades, leaders and rank-and-filers alike are feeling the pinch of the recession.

Despite these portents, there are relatively few Wall Streeters who will admit publicly to any fear that dividends this year as a whole will suffer a major decline. Non-Street counselors are taking the same position.

• Reluctance—This optimistic view is based chiefly on the fact that corporations as a group hate to reduce established dividend rates. After all, the rates were carefully calculated in the first place to be continuously payable except in cases of steep and long-sustained fall in earnings.

The confident thinkers support their thesis by pointing to the recessions of 1949 and 1954, in both of which dividends continued the overall rising trend prevalent since the war. They find further solace in the payout rate, which for 1957 stood at a reasonably conservative 60%, though it was up from 57% the year before. From these figures, the optimists deduce corporations could, if necessary, pay out a still larger share of earnings in 1958.

• Hard Core Dissenters—There's one group of normally shrewd Streeters that completely refuses to buy this cheerful attitude. They find their worries in some careful breakdowns of the showings made in the third and fourth quarters this year by a variety of companies, including some strong ones.

This breakdown reveals that in the fourth quarter, payout ratios became alarmingly high in many companies. And these sharp-pencil workers are convinced that the ratio will get even higher in the present quarter, and very likely in the next one, too.

From all this they figure that boards of directors, no matter how great their reluctance to cut established dividends, are going to have to take a serious look at earnings, and make some hard decisions. Among the questions that the boards will have to weigh are these: How long will earnings keep on declining? How far down are they going? After they do stop falling, how long will it be before they begin to climb again?

The bearish thinkers are convinced that once these factors have been assayed realistically, a lot of dividend rates are sure to drop. That's because they are convinced that the business recession is going to be a lot longer-lived and a lot harsher than most people seem to think. **END**

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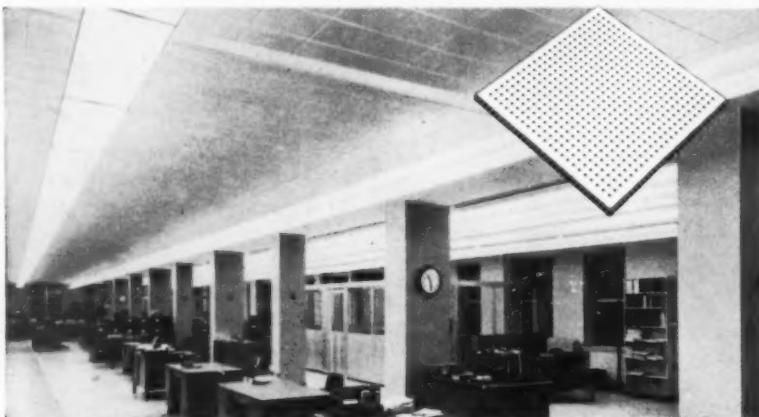
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How Gold Bond Ceilings reduce noise, make offices look better

Case histories of Gold Bond Sound Conditioning at work



In a Florida savings institution — the Citizens Federal Savings & Loan Association of Hialeah — Gold Bond Travacoustic ceilings soak up disturbing sounds, make everything pleasantly quieter. Travacoustic's rich, good-looking texture adds just the right decorative touch, too. Rowell-Van Atta Acoustics, Inc., Miami Beach Gold Bond Acoustical Contractor, did the job.



The Buffalo Insurance Company in Buffalo, New York, solved its noise problems with a Gold Bond Acoustifibre ceiling. Tiles were installed right over old ceilings . . . made the office a quieter, pleasanter place to work. Acoustifibre is easily cleaned with a damp cloth, can be repainted without affecting its sound-absorbing qualities. The job was handled by Buffalo Acoustical Corp., Gold Bond® Acoustical Contractor in Buffalo, N. Y.

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Wall St. Talks . . .

. . . about the recession—
who's chasing whom . . . institutional buying . . . secondary offerings by individuals . . . booming pension funds.

"The recession seems to be chasing the Administration, and not the other way around," says Moody's—and many Streeters agree. Moody's argument runs that since a "tax cut . . . looks probable" later, "it would be much better . . . for the market and for business . . . [if the cut were] . . . sponsored officially now instead of 'waiting to see.' To do this after a delay would be the same as saying to investors and businessmen that the situation had become worse," with the indication that the Administration was "still fighting a rearguard defensive action, rather than . . . taking the offensive on the economic front."

Institutional investors continue to favor bonds and preferred stocks in their heavy buying, brokers report. But utility commons have also come in for above-average buying both by institutions and by big private investors.

Will lightning strike twice? Upham & Co.'s Ralph A. Rotnam has made plenty of Streeters a bit uneasy with his prediction that the Dow-Jones industrial average will move within a 460-360 range this year. That range has a high only 4% above the present 442, and a low 14% below the 1957 low. And the Street remembers that Rotnam's prediction for the 1957 range was exactly on the button.

Secondary offerings are still being used to unload many big individual stock holdings. On Monday, there were successful offerings of 267,678 shares of General Motors (worth \$9.1-million) and of 40,000 shares of Time, Inc. (worth \$2.4-million). As usual, the names of the sellers were not disclosed.

Pension funds are still booming. Cecil P. Bronson, v.p. of Chicago's Continental Bank & Trust, says the retirement funds for private and public employees now have \$40-billion in assets. The total is growing by \$4-billion a year.

Sufferings of copper producers aren't confined to the U.S. breed. In the second half of 1957, earnings of one major African copper company dropped 57%, another was off 71%.

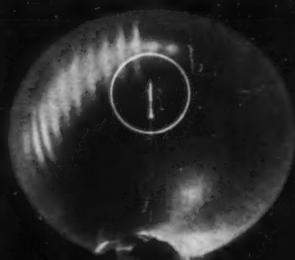
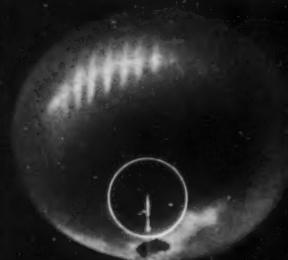
OPERATION FAR SIDE

**From "off the shelf" to
thousands of miles
into space**

Balloon-carried to 100,000 feet and launched up through the big bubble, the four-stage Operation Farside missile achieved the greatest height ever attained by a man-made object—an estimated 4,000 miles to the edge of outer space.

A cluster of four Thiokol solid propellant Recruit engines supplied the critical first stage take-off thrust, followed by a single Recruit as the second stage.

Farside again emphasized the flight reliability of Thiokol solid propellant rocket engines, whether ground, sea or air-launched. And the five Recruit engines were standard "off-the-shelf" models. The Recruit has been proven time after time for power and performance. Since the engine is a regular production item, precious time and dollars were saved for the Farside project. Operation Farside was developed by Air Force Office of Scientific Research, ARDC, and Aeroneutronics Systems, Inc.



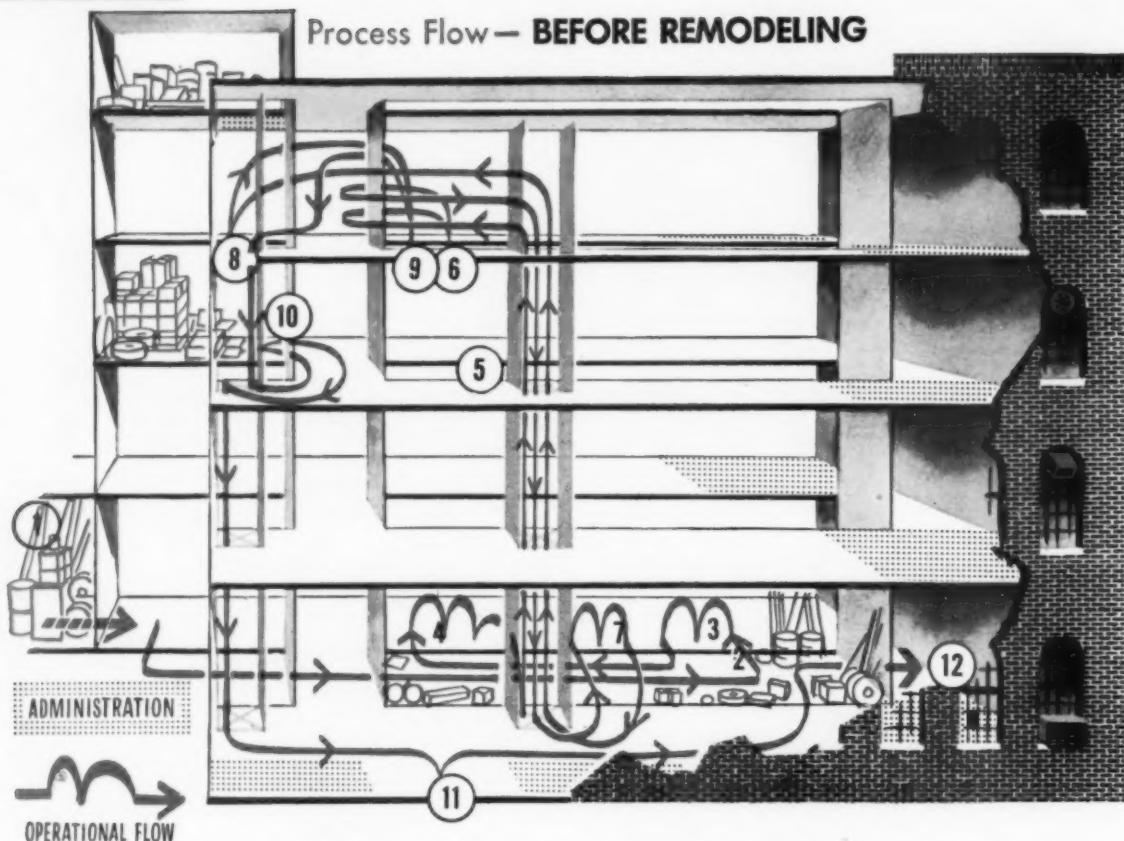
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PRODUCTION



OLD ROUTE for manufacturing the case of a power relay brings steel stock from storage area (1) through cluttered courtyard (2) used as an overflow storage space, then to three manufacturing operations at (3), another two at (4). Elevator (5) takes parts to fourth floor to be degreased (6), then back to first floor for three

more operations (7). Case then goes back by elevator to fourth floor to be plated (8) and painted (9). Finished case takes another elevator to storage area (10) to await shipment. After that, it goes back to first floor for packaging (11) and shipping (12). The old four-story plant has no conveyors at any point.

Turning an Old Four-Story Plant

Westinghouse engineers are proving that you don't need a brand-new, one-story plant for efficient handling and assembly of materials. Here's how they did it at Newark, N. J.

The cost-conscious manufacturer has a powerful urge to move from aged multi-story factories in crowded city districts to wide open areas where his dream plant can sprawl at one super-efficient level (BW-Jun.22'57,p94). But he needn't feel that all is lost if he finds he can't make the move. Staying put and remodeling the old plant in a modern likeness can have advantages, too.

Westinghouse Electric Corp. planned at one time to move its Meter Div. from a 75-year-old, four-story plant in Newark, N. J., to a North Carolina site where it could start from scratch with the latest in assembly lines. Then

the plan was called off. Instead, Westinghouse put a much lesser sum into modernizing the old plant. It's pretty happy about it, too.

• **Straightened Out**—Westinghouse did more than merely make the old quarters livable until the dream plant should materialize. It built some of the dream plant's most important features into the remodeling.

When the modernization is finished, a year from now, the Meter Div. will have an integrated production line, set up in slightly corkscrew fashion, in a completely modern factory that just happens to have an old shell. The main idea is to eliminate the back-and-

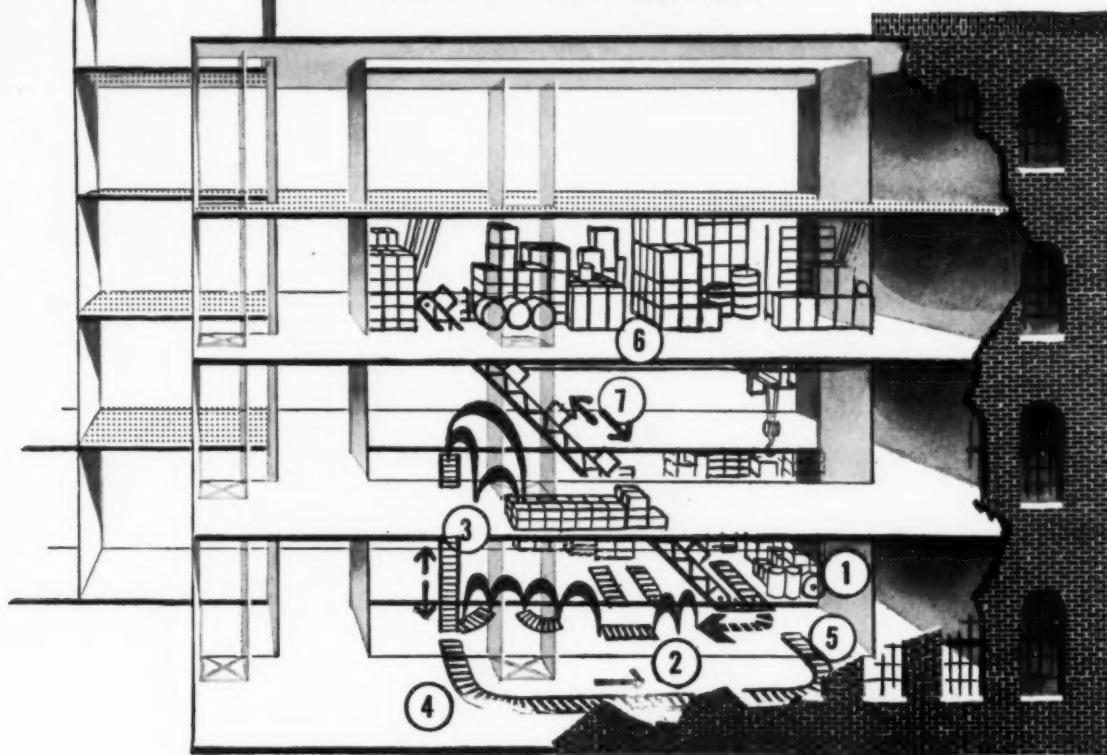
forth flow of materials and products (drawing above) by fabricating complete subassemblies in each department successively (drawing, opposite page).

The straightening of the production line as much as possible in a multi-story plant is expected to cut elevator traffic by 75% and reduce the lift-truck fleet from 16 to four or five.

• **Big Savings**—As the modernization got well past the halfway mark, Westinghouse officials discussed it for the first time at a recent meeting of the American Materials Handling Society in Newark. Besides the achievement of a modern production line in a 75-year-old plant, they mentioned two big savings of money and time:

• A plant at the North Carolina site would have cost \$5-million, plus another \$2-million for moving expenses and for training employees. The remodeling in Newark, turning the ex-

Process Flow—THE NEW WAY



NEW ROUTE in remodeled plant shows fewer steps for the relay case. Steel stock are stored by the new punch press department housed in the old courtyard (1). Fabrication is completed in one department as the pieces move down a conveyorized production line (2). The case makes its only journey upstairs when

it is taken to be baked and finished (3), then stored nearby until called for shipment. At that point, it goes down by conveyor to the packaging department (4), then by another conveyor to the shipping department (5). General storage on second level of new courtyard building (6) is reached by a new conveyor system (7).

Into a Modern Assembly Line

isting production line upside down and inside out, will cost about \$2.2-million.

• Moving from Newark to North Carolina would undoubtedly have cost days if not weeks or months of full production. The remodeling is being done without any loss of time. It takes longer this way—two years instead of the six months it would take if the plant were shut down during the work—but it's important for Westinghouse to be able to maintain normal delivery schedules on competitive items like power line relays and meters.

The more Westinghouse looked at the idea of rejuvenating the Newark plant instead of migrating southward, the more it liked the choice. Moving would have incurred a sticky problem of what to do with long-service employees. Besides, Newark seems to be on the upgrade as an industrial area, with stable taxes and an ample supply

of skilled labor (BW—Nov. 30 '57, p144).

• **Unpromising**—At the same time, Westinghouse was under no delusions that the renovation would be easy. The Newark plant consists of 10 buildings sitting on four different levels around a courtyard that doubled as a shipping dock.

Probably more than half of the country's 80,000 to 100,000 factories are still of this old-fashioned multi-story design, haphazardly tacked together and almost impossible to convert into the single-level production flow beloved by modern designers. Many such factories get a paint job, some refurbishing, new lighting, air conditioning, or the replacement of some old machines by later models.

What these halfway measures fail to provide is the real joy of creating a new plant—the gain in efficiency that comes from being able to lay out the produc-

tion line from the beginning without regard for existing plant.

Westinghouse is trying to get this efficiency the harder way—by thinking of the production line in new-plant terms and then threading this production flow through its old multi-story buildings. This meant changing the meter and relay assembly operations from a job-shop type of individual assembly to a progressive-flow line.

• **Storage Problem**—The company had a related problem, too. For lack of storage space for incoming materials, it had to rent a 40,000-sq.-ft. warehouse five miles away. This put a strain on the shipping and receiving staff; it took 75 pickups and deliveries by trucks each day to keep things running smoothly.

Westinghouse engineers found the cure for this. It didn't look possible at first, but they found space in the old courtyard for a new two-level building



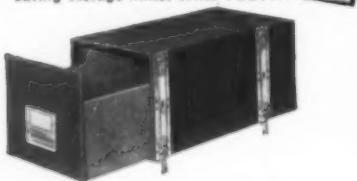
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four stories high. The second level is the new central stores area; an adjacent ground floor in one of the old buildings becomes the home of the shipping and receiving department. The former occupant, the punch press department, moves into the first floor of the courtyard building.

In its new quarters, shipping and receiving occupies a more accessible outside corner of the plant, where modern leveling docks can be utilized. It is connected with the storage area by a conveyor system; parts and materials move from the upper level storage area to assembly areas on gravity-feed conveyors.

• **Leveling and Shuffling**—As in many other old factories, the Newark buildings were built on different levels, which raises hob with material handling. Lift trucks can't pass from building to building without awkward ramps or elevators. This is a handicap particularly on the ground floor, where the heavier manufacturing operations are carried out.

Westinghouse beat this problem by leveling its entire ground floor, except for one building that was a good half-story out of alignment. That building the company converted to offices. Any offices that didn't fit into this new space went to the fourth floor of the old factory, along with the laboratories and test facilities, leaving the lower floors for operations of more productive value.

The painting and plating departments, which used to be on the fourth floor for fire hazard or reasons of better ventilation, are being moved to the bottom floor, where they can be integrated into the production flow. In this age of better ventilation and air conditioning, the old reasons for putting these departments up under the roof no longer apply.

• **Intricate Shifts**—S. C. Iannaccone, the Westinghouse engineer who is superintending the renovation, remarks that it takes someone with the mind of a three-dimensional checkers player to see that all these interrelated moves come out right without disrupting the plant's operations. But the gains in efficiency promise to make the nerve strain worthwhile.

For example, fabricating a relay case is a fairly simple operation. Yet this is what happened under the old setup:

The top piece of the case moved through three departments to shear, punch, and trim it; the bottom moved through two as it was blanked, formed, and bent to shape; the side, too, went through two departments as it was sheared and bent.

All these parts were then hauled to the fourth floor to be degreased, back downstairs to be welded together, and again up to the fourth floor to be zinc-

plated, phosphate-coated, and finally painted. And the plant had no conveyor system between floors.

Now the complete operation, with the exception of a final jump to the second floor for baking and finishing, is done in one department, in one floor area.

• **Ticklish Move**—The job of moving departments without interfering with production has been a juggling act far more difficult than laying out a whole new plant, Westinghouse engineers say.

Some departments, such as the central stores and the punch press room, are already in their new quarters. Others, such as meter assembly, are in transition, half working at new machines in the new location and the other half continuing at the old stand while the rest of the new stuff is being set up. Some departments, such as the plating department, haven't even begun to move.

Each new facility is fitted out with new machinery and material handling systems. Over a weekend, the department is then moved to the new location together with whatever old equipment is still scheduled for use. This way, the Meter Div. has managed to keep production going with no lost time.

• **Bright Future**—Westinghouse engineers won't insist that, in general, they would rather have an old plant than a new one. But they have learned that for certain kinds of light manufacturing, a modern two-story plant may have advantages over the one-story plant, no matter what the books say.

Iannaccone mentions a couple of these advantages that are coming to light in the Newark conversion: (1) compactness and (2) consequently simpler material handling systems.

Westinghouse is confident of getting another 30 to 50 years of improved service out of a 75-year-old plant that had been destined for the wreckers.

PRODUCTION BRIEFS

The largest order yet for small gas turbines for helicopters has been awarded by the Navy to General Electric. GE will supply \$5.4-million worth of its T-58s (BW-Dec. 21 '57, p82), the first gas turbine to be fully qualified for use in helicopters.

The pressure vessel for the first nuclear reactor of the Navy's atomic-powered surface ship program has been shipped by Foster Wheeler Corp. The 100-ton tank will go to the Naval Reactors Facility at Arco, Utah, where the pressurized water reactor will be assembled and tested.



Swimsuit "Mermaid" by Rose Marie Reid—Setting by Botticelli

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Because cellulose helps make better living possible, Rayonier foresees, in the near future, a need for far more cellulose than is now available.

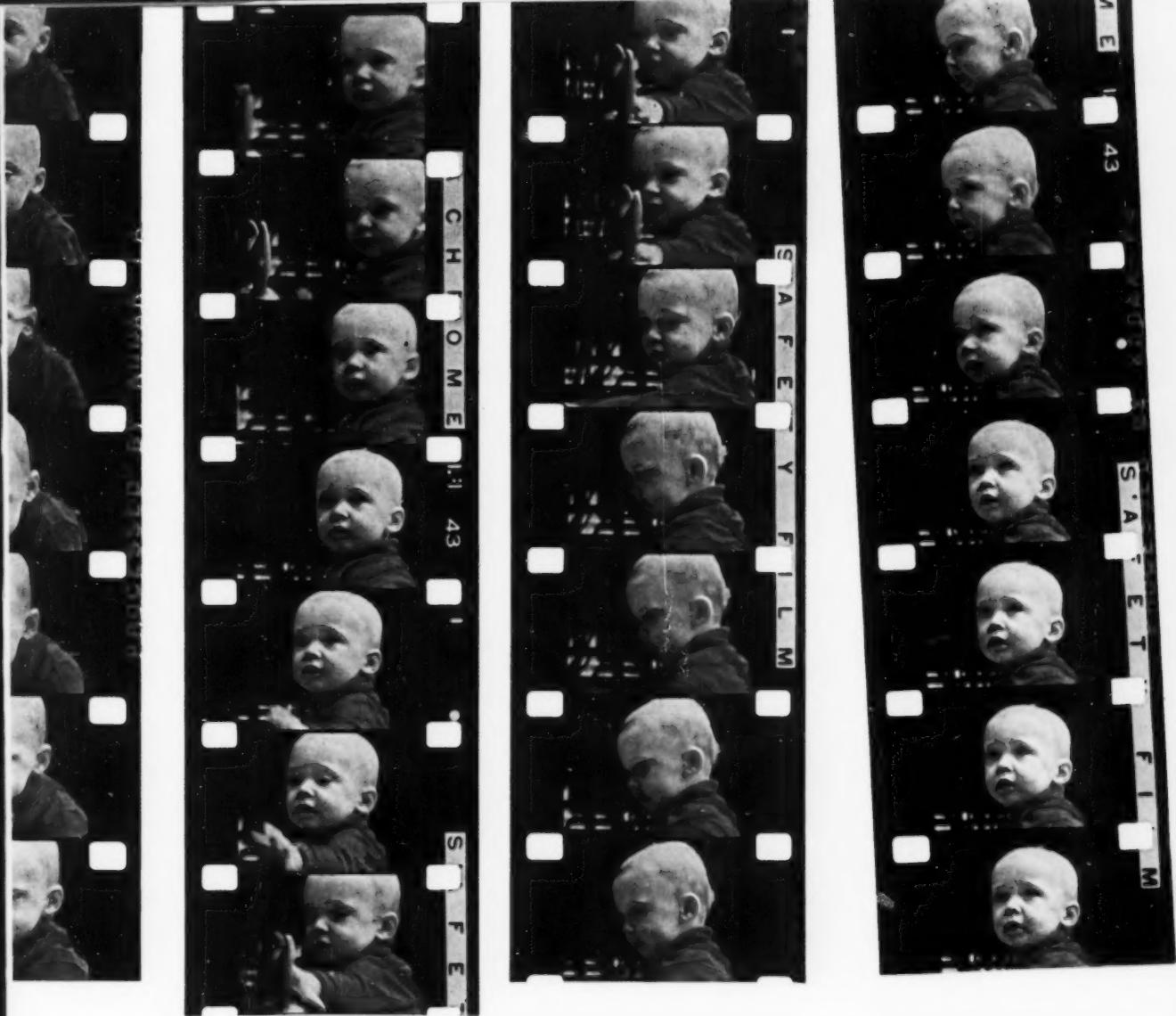
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AS OUR NAME clearly indicates, we are in the telephone business.

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And while—by the yardstick of size—we cannot claim to be the leader, we find ample opportunity for leadership in other ways.

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Do-It-Yourself Takes to the Air

The "Tipsy Nipper," a bantam-sized plane that comes in a kit, poses against the wing of a British Hawker Hunter jet fighter. A product of Fairey Co. Ltd.—Britain's largest light-plane builder. The flight mite is 14 ft. long, has a wing-spread of 19.6 ft., is powered by a 36-hp. Volkswagen engine, and cruises at

66 mph. Its range of 187 miles is more than sufficient for an afternoon of cloud chasing or a hop across the English Channel.

The midget plane, in kit form, sells for about \$1,000. The picture was taken at Charleroi-Gosselies Airport in Belgium, after a test flight.

Did you know

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- Automatic intermittent ringing
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- Automatic Toll Ticketing (direct distance dialing)
- Loudspeaking ("no-hands") phones
- Color telephones
- The "Walking Handset" (eliminating off-hook service breaks)
- Automatic teletypewriter switching
- CDX community dial exchange (unattended)
- Electronic Secretary (automatic telephone answering service)
- Electronic Sentry (automatic telephonic warning service)



Plastic Makes a Tight Coating



A new clear plastic coating that needs no adhesive backing will be made by Goodyear Tire & Rubber Co. in a new \$9-million plant the company will build near Charleston, W. Va. It can be applied by pressure as a surface for any laminated material, such as plywood,

or for metals, paper, other plastics, cloth. Goodyear claims it will remain tight and smooth even while the coated material is being cut and shaped.

Like du Pont's Mylar, Goodyear's Videne is a polyester film. Goodyear will make it in thicknesses from .002 in. to .007 in. It is resistant to scratches and to water, alcohol, oil, and grease; it has good electrical insulating qualities, and it ages well. Its gloss can be controlled from a high gloss to a satin finish. It can be embossed or printed before being applied.

An indication of the wide range of possibilities for Videne A as a surfacing material can be found in the list of companies that have taken part in the testing of the new film.

These include: the Aluminum Co. of America, which is looking for a way of improving the abrasion resistance of aluminum; U. S. Plywood Corp. and the General American Transportation Corp., which want a protective coating for wall panels; Dow Chemical Co., which found that a Videne surface gave polystyrene superior outdoor aging characteristics.

In addition, Di-Noc Chemical Arts, Inc., and the Mevercord Co., tested it for decals; KVP Co., as a paper coating; Woodall Industries Inc., and Sag-

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As a specialist he must know printing and the many technical characteristics of paper that are unnoticed by the layman but vital to its performance on the press and in use.

As a merchant he must know how to apply this technical knowledge creatively to solve his customers' problems and to sell, finance, service and deliver tons of paper each week from a complexity of grades, sizes, thicknesses, weights, colors, and brands that sometimes range up to 10,000 different items in a single warehouse.

All told, he and 3300 other U.S. paper distributors and their salesmen handle more than 40,500,000 transactions in moving \$3.1 billion of fine and coarse paper a year.

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Your paper distributor can play a big part in getting just the right paper for your next job: a paper that will look right, feel right, be right and enhance your message and your printer's efforts—all at once and at a price that is fair. That can make a big difference in the effectiveness of your printed material.

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inaw Furniture Shops Inc., as a protective coating for furniture.

Videne A, the film laminate, is priced at \$2.25 per lb. Videne TC, a variation that is heat shrinkable and stiff enough for use in automatic packaging machines, is priced at \$2.40 per lb.

Alkaline Flashlight Cell Lasts 10 Times Longer

A battery that closely resembles a standard flashlight cell but lasts 10 times as long has been developed by Union Carbide's National Carbon Div., which makes Eveready batteries. The leak-proof battery—called Energiser—was designed especially for such sustained-drain uses as portable radios and battery-powered fans. It can also supply considerably higher power than standard flashlight batteries, and operates efficiently in temperatures ranging all the way from -40F to 200F—both extremes that defeat ordinary dry cells. Indeed, National Carbon claims it is three times as efficient as the best low-temperature cell.

The essential difference of the Energiser is that for its electrolyte it used an alkaline solution instead of an acid. It is the first alkaline cell to be made available for low-priced consumer items.

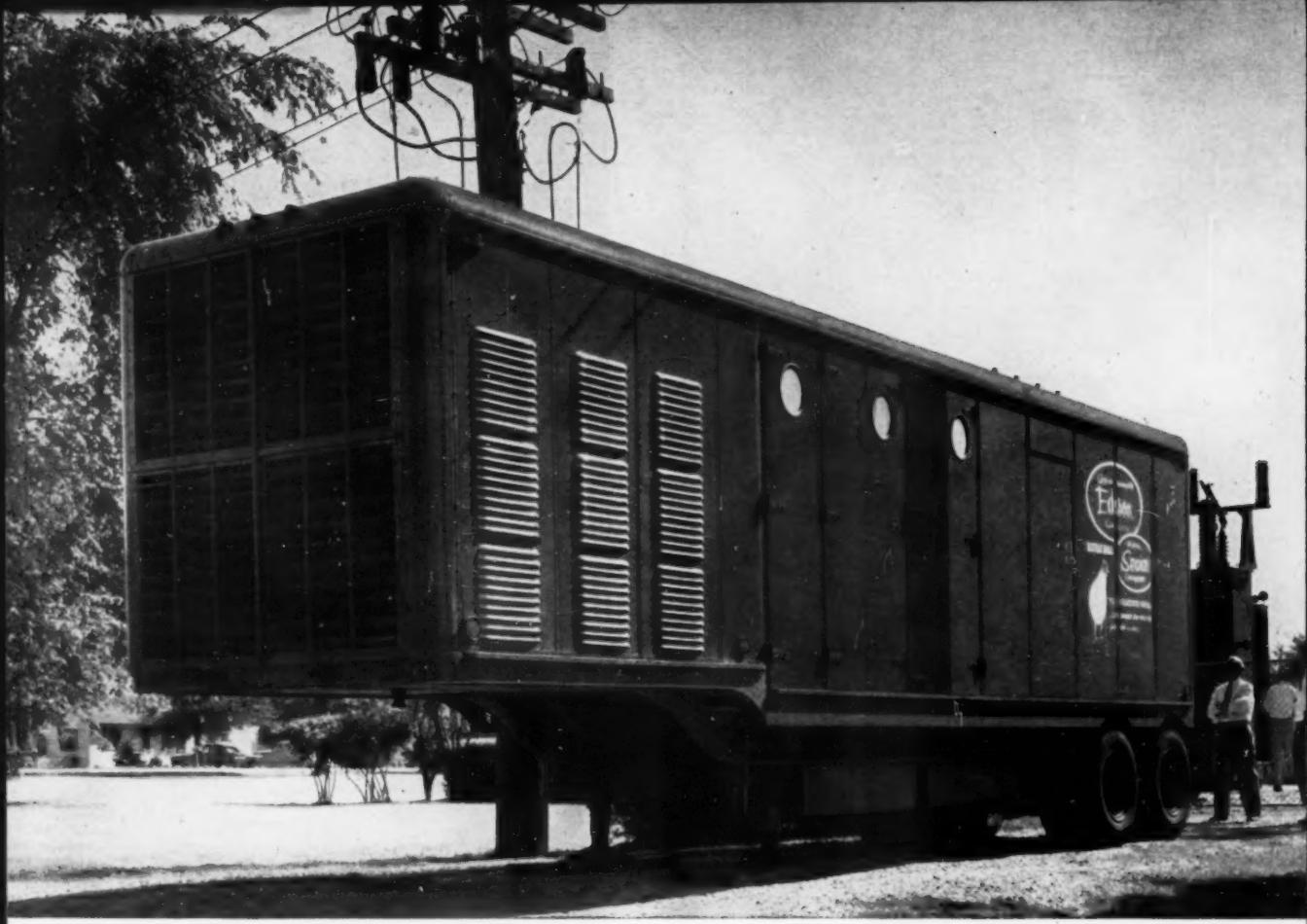
The present version closely resembles the appearance of the standard "D" flashlight battery, and like it, is rated at 1.5 volts, though the Energiser is capable of much higher amperage, or power. National Carbon plans to produce a half-length version soon—also at 1.5 volts—and eventually to offer a wide variety of sizes and shapes.

The Energiser, which will sell for around 35¢, may open up a considerable field of small portable electric and electronic devices, for which standard batteries are not economical.

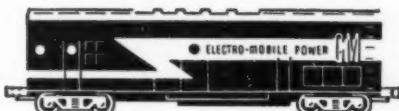
NEW PRODUCTS BRIEFS

Whiskey dispensers for bars and caterers electronically tabulate the number of drinks from a bottle and automatically meter the quantity. They are made by Meter Mfg. Co., Inc., a new company in Buffalo, N. Y. The device, trade-named "Silent Partner," holds 10 inverted whiskey bottles, is mounted on a wall panel or a lazy susan turntable. A portable version for caterers will tot up an exact corkage charge.

A more corrosion-resistant version of wrought iron has been developed by A. M. Byers Co. It will be marketed under the designation 4-D wrought iron, will sell for the same price as standard wrought iron.



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1000 kw units for use on sidings or placed on piers for semi-permanent use.



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Not, that is, when work can be completed during regular hours and without interrupting service. And many utilities are doing just that—paring the high cost of line relocation and other maintenance and repair needs—with versatile Electro-Mobile generating units.

For example, a 500 kw trailer like the one shown here can travel most anywhere, pick up a load in minutes. Crews can do their work faster, at lower cost, and all the while *normal service* is maintained.

Further, these units can be utilized as an immediate source of emergency power. Their quick mobility can provide the means to continued service, and continued good public relations.

The economies of Electro-Mobile Power have been demonstrated on many utility applications. Why not ask your Electro-Motive representative to outline briefly ways these trailer units can help improve service and lower costs for your system?





William Zeckendorf is redeveloping slums in New York, Washington (D. C.), Chicago.



Herbert S. Greenwald is building in New York and Detroit, soon in Newark, N. J.

Housing Developers Vie for

THE MEN in the pictures above have one thing in common. All are engaged in converting urban slums into private housing with government help.

If they realize all the aims they talk about, there will be new housing in cities for lower-middle to upper-income families; the exodus to the suburbs will be slowed; and the centers of U. S. cities will get a real uplift.

Nor will the builders themselves do badly. They will have their equity out in a fairly short time, make a good operating income, and wind up with well-located properties appreciating in value—which they will sell at a nice profit. All this if everything goes well.

- **Ground Rules**—The concept of replacing slums with housing was introduced with the National Housing Act of 1949, whose Title I (Urban Redevelopment) spelled out the ground rules.

In states whose legislatures permitted, cities got the right to acquire blighted properties by condemnation, relocate

slum tenants, clear the areas, and sell the land—at a lower price—for residential, commercial and industrial uses (or keep it for public use).

The federal government agreed to make up two-thirds of the difference between what the land cost the city and what the city got for it. The city would provide the rest.

- **Red Tape**—On paper, a lot has happened. So far, more than 250 cities have planned more than 450 projects, for which the Urban Renewal Administration has earmarked over \$1-billion in capital grants. In general, this would involve expenditures of \$4-billion of private money to develop the land.

Actually, the program has been slow in getting under way. URA has had to disburse only \$100-million in capital grants. Only three projects, by URA's definition, are complete. Hamstringing the projects are the slowness of government at three levels, public lethargy or opposition, and the physical problems

of relocating tenants, razing structures, and putting in public works.

- **Heading the Crusade**—And when everything else has been done, the land still must be sold to men such as those in the pictures.

William Zeckendorf, president of Webb & Knapp, Inc., is the biggest developer in the urban renewal programs. He is building two projects in New York City, has been named sponsor for a third, has a contract in Chicago, and is negotiating for one in Washington.

Herbert S. Greenwald of Chicago, an apartment builder, is putting up one project in Brooklyn, negotiating for one in Manhattan, building another in Detroit, and has contracted for one in Newark, N. J.

James H. Scheuer, chairman of the executive committee of his family-controlled City Suburban Homes Co. in New York, already has moved tenants into a small project in Cleveland, is



James H. Scheuer is active in Cleveland, will break ground in Washington soon.



Roger L. Stevens is working on a New Haven project, will move into Washington also.

Jobs of Clearing Urban Slums

working on a contract in St. Louis. He and Roger L. Stevens, a commercial realtor and theatrical producer, are about to break ground on a Washington project and have been designated as joint-sponsors in Sacramento.

Stevens alone is undertaking a commercial development in New Haven.

Seon Pierre Bonan, a New York contractor (picture, page 82), has signed a contract in Boston, is almost ready to sign one in New Haven.

Other developers tend to restrict themselves to one city. Usually these are smaller builders, several of whom have been unable to finish their jobs—in which case Zeckendorf and Greenwald stood ready to take over.

I. Risks and Rewards

To succeed in urban renewal, a developer must be more than an apartment builder. The risks are greater, so are the rewards.

The areas in which Greenwald is building in Detroit and Scheuer-Stevens in Washington have been slums for years. It will take some effort to persuade middle-income families to pay rents of around \$45 per room to live there—and establish a new neighborhood.

Yet the developer feels the compulsion to succeed because, thanks to the city's use of condemnation, he is able to work with a tract much larger than anything he himself could ever hope to assemble.

• **Most Mileage**—It is hard to exaggerate the importance attached to the developer's concept of a project—physically as well as socially.

Cities rely heavily on the uplift they can derive from an urban renewal project. They want to get the maximum mileage out of it for residential, industrial, and commercial developments. In housing, for political reasons at least, they want to accommodate minority

groups. That's why they have come to consider the plans submitted by developers competing for a contract more heavily than the price he offers to pay for the land.

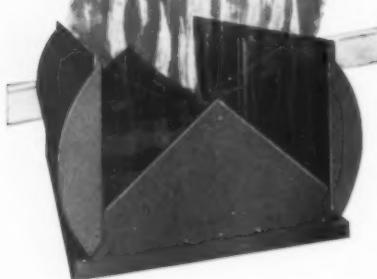
There's a growing feeling that the highest bid for land does not assure the city of the most desirable project. Hence, Federal Housing Administration's fair market value is becoming accepted as the price, often over local pressure groups.

• **Top Talent**—That builders are aware of the value of plans is attested by the planning talent they are employing.

Greenwald uses Mies van der Rohe; Bonan is engaging Victor Gruen; Scheuer has Albert Mayer. Zeckendorf has a large staff assembled by I. M. Pei, former Harvard professor, which includes students of Mies, Gropius, Le Corbusier, and Frank Lloyd Wright.

• **Ambitions**—The developers talk of economic and social integration. By

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Sean Pierre Bonan has a contract in Boston, expects to sign another in New Haven.

mingling high-rise apartments and low-rise townhouses—some of them for sale—they will provide a range of units for young and old, single people and large families, whites and Negroes, rich and lower-income people.

Greenwald speaks of separating pedestrian from automobile traffic. Pic includes common greens to unite buildings. Scheuer stresses amenities such as "street furniture," reflecting pool, facade, landscaping, different construction materials. He complains that these extras do not come under the mortgage. "I have 100% equity in a reflecting pool and don't like it," he says.

II. Political Bottlenecks

The planning of imaginative projects takes time. A builder may spend a lot of time and out-of-pocket money for technicians just creating his plan and meshing it with the city master plan—without being sure of getting the job.

Sometimes a builder gets fast action at the local government and FHA processes his commitment fast, as happened to Scheuer in Cleveland. Stevens, on the other hand, has spent 3½ years in New Haven, and is still negotiating for land. And Cleveland and New Haven are two cities whose mayors are conscious of the political values of a fast-moving urban renewal program.

Says one developer: "If you're going to a town that's very political or crooked, you can make headway. If it's not politically attuned, you'll die in the saddle."

• **Diplomats**—The builders must slow down their pace to that of city hall, know how to deal with politicians and professional city workers. "We must remember," said one, "that these men don't wear a price tag." Particularly

frustrating for a builder are cities where the city hall pros cross wires among themselves.

Occasionally, the developer must allow himself to be used as a trained seal. City hall may invite him out because it wants to make the voters think it's doing something about urban renewal—even though it isn't—or to help a campaign for bonds to finance urban renewal programs. This takes more time, and time is money to builders.

Zeckendorf, in particular, has been sprinting from coast to coast, at the drop of a bid. Letters come to his office frequently, such as this one from a Midwestern city:

"We are familiar with many of your projects throughout the country, and we wish to learn whether any of our projects here . . . would be of interest to you."

• **Hazards**—With the paper-shuffling and conference time so demanding, one might suppose that a large organization with outside consultants—including Washington contacts—is a must to get into urban renewal. Yet advocates of the program hold that its success depends on how many medium-sized builders can get into it and make it work.

In Washington, Title I has been facetiously called the "Zeckendorf Relief Bill," because Zeckendorf has more projects than anyone else—not disproportionate, Zeckendorf contends, to the size of his vast staff.

But even though politicians recognize the political hazards of appearing to let one man have so many projects, no one in Congress is ready to make urban renewal any more attractive to smaller operators than it already is. Congress and the housing agencies still have nightmares from the "608 scandals" under which apartment builders got windfalls by getting mortgages covering more than the actual cost of their projects, then keeping the excess. Such windfalls are guarded against under urban renewal by cost certification.

To Zeckendorf, the main attraction of urban renewal is "maximum leverage"—smallest equity compared to gross project cost.

III. How It Works

FHA is authorized to insure the mortgage for 90% of cost, and insists on a developer putting in 3% equity. In return, it lets him count a 10% builders' allowance as part of the cost. This is how it works theoretically for a project costing \$1-million:

The construction cost comes to \$715,200 and architects' fees and other charges run this up to \$828,250. But builder's allowance of roughly 10% comes to \$82,750, making the total \$911,000. The cost of land, \$89,000,

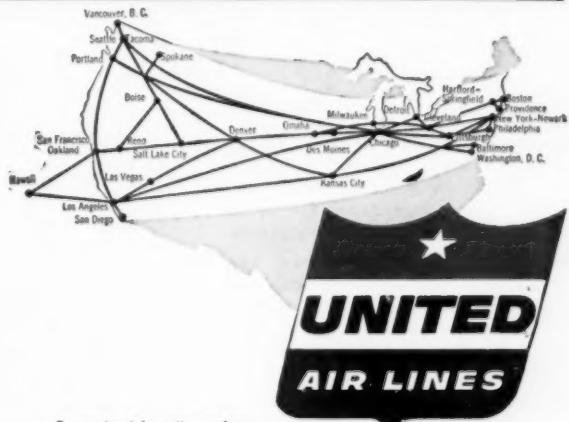
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Airports served directly	69	14	61	11	46
All-radar fleet	Yes	No	No	No	No

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brings the replacement cost to \$1-million.

The mortgage, therefore, can be for \$900,000.

In addition to the \$100,000 difference, the builder must provide working capital amounting to 2% of the mortgage, running requirements above the mortgage to \$118,000.

To figure how much of that \$118,000 the builder has to put into it in cash, you deduct the builder's allowance of \$82,750 but add a 3% fee (\$21,500) for the contractor.

That puts it at \$56,250 for the \$1-million project.

• Reward—How fast does he get that back?

Assume a gross rental income of \$137,870. FHA lets him count on a 7% vacancy, reducing gross to \$128,220. Operating expenses and real estate taxes would be on the order of \$48,220, leaving \$80,000 net before debt service. For debt service, FHA permits 7½% of the mortgage, or \$67,500. Thus before income taxes he would have an annual return of \$12,500 with a 7% vacancy, or better than one-fifth of the cash investment. With fewer vacancies, it could run to over one-third.

However, this arithmetic still has to take one factor into account: income tax. Since most developers, under regular tax laws, are likely to take advantage of fast depreciation, they will avoid paying income taxes in the early years and get their money out in less than four years.

After several years, when the developer has paid off the FHA mortgage to about two-thirds of the then mortgage value of the property, he is likely to refinance the project conventionally to get out from under FHA restrictions on rents and make a larger annual income.

By then, it won't be long before he has got all the benefit from fast depreciation. At that time, he will sell the project. Counting on inflation to work to his advantage at 2% or so yearly and on the property itself to gain in value because of what it has done for land values around it, the builders should be able to get considerably more than the gross cost.

IV. Not All Gravy

If urban renewal's profits are as easy as all this, why aren't more builders doing well thereby?

Aside from the broad imagination, patience, and cash outlays it requires, prospects may be deterred by the simple fact that urban renewal has yet to prove itself. The money is still on paper.

Of the five major operators pictured, Webb & Knapp is in it because its specialty-established commercial prop-



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to discover new worlds of product and process improvement. It is difficult to find an industry in which some form of product or process improvement has not been made possible by imaginative use of

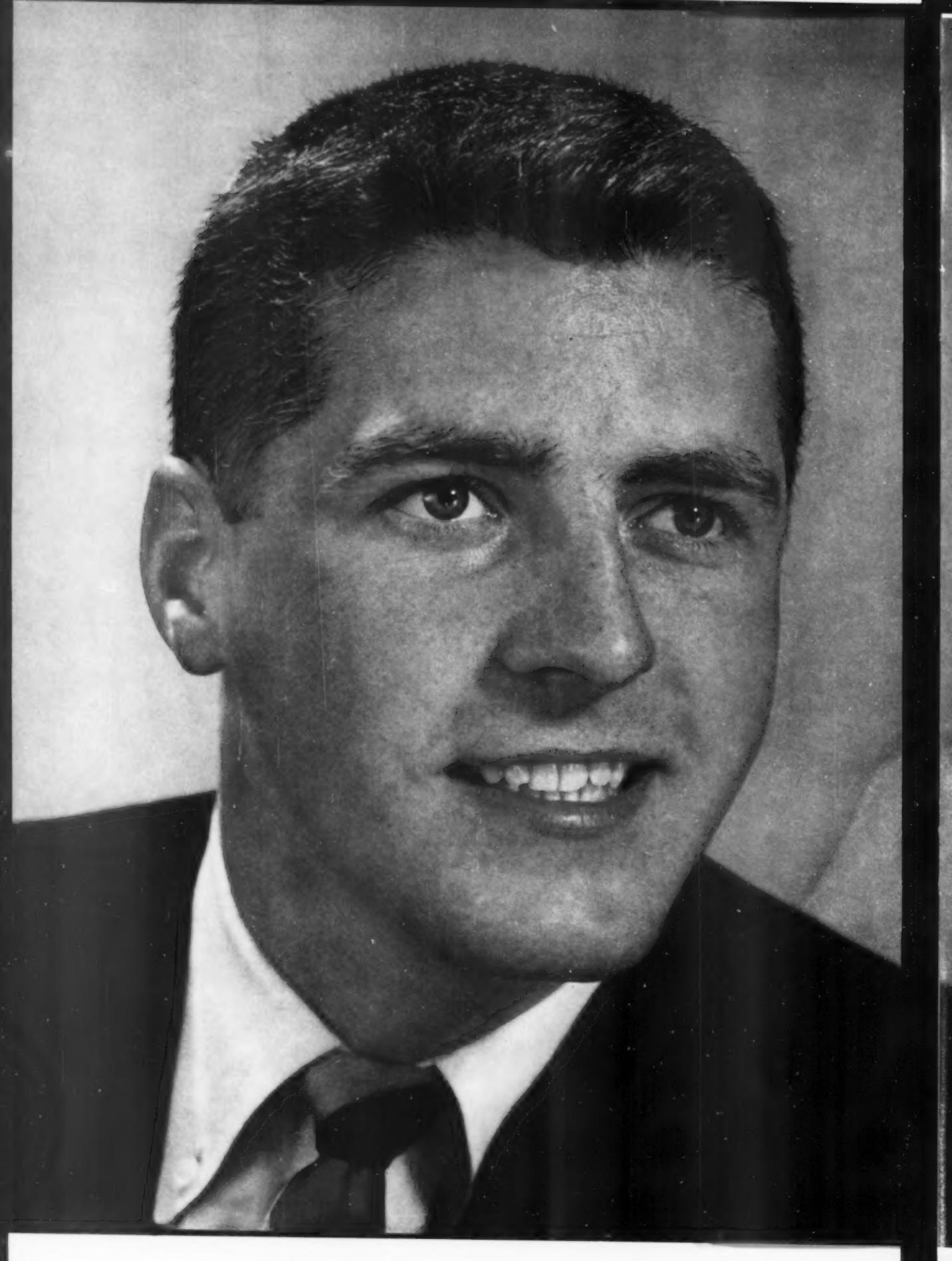
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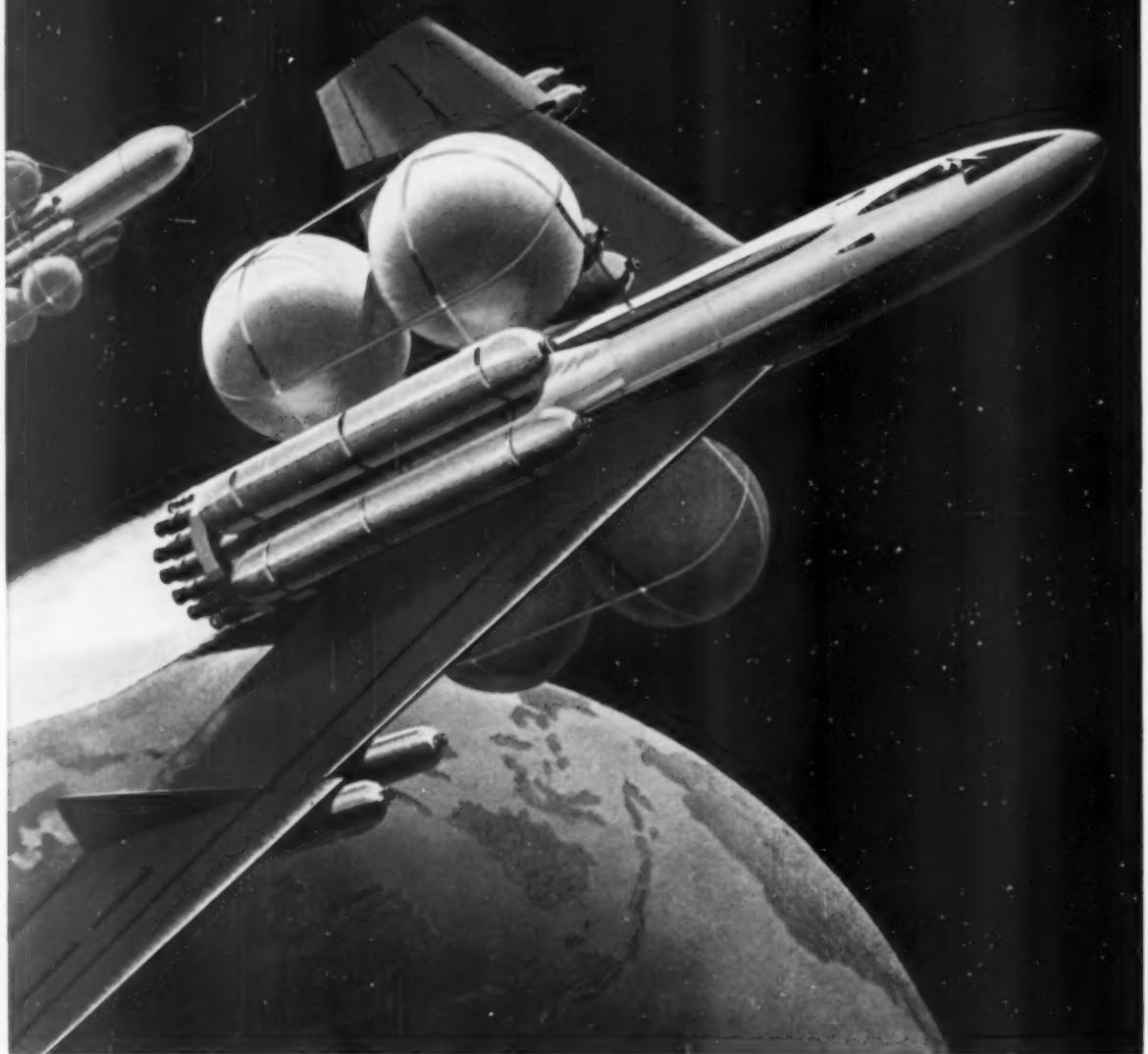


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erties—had become a bit competitive with the entry of syndicates.

All figure this kind of housing is a good thing to get into as a long-term investment because of the value of the projects they hope to wind up with and the annual return they have in the meantime.

All but Scheuer also like the commercial aspects. To them, erecting stores and office buildings on Title I land is easy money when they can attract tenants of good credit standing. Stevens, for example, signed up Macy's in New Haven—that chain's first location on a renewal site.

Short of additional financial incentives, developers feel that federal and local governments could make the program of urban renewal more attractive. For one thing, builders would like FHA to grant commitments at a faster pace. For another, the developers think URA should speed up its approval of cities' land sale plans.

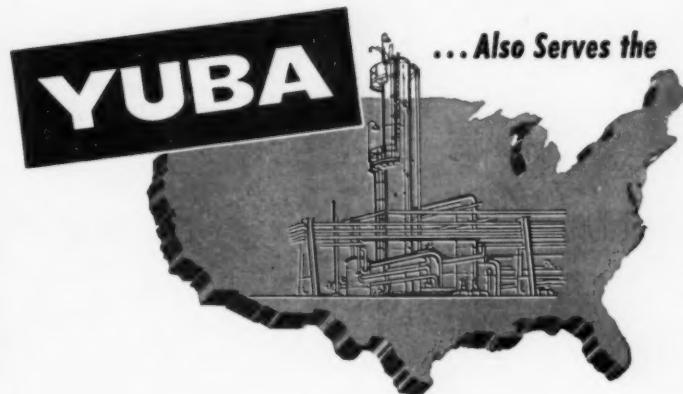
• **Gripes**—Financially, builders have several grievances for FHA.

They protest that they don't actually get 90% mortgages because some facilities that they don't want classified as dwelling units—to get the most out of the statutory per-room mortgage limit—are classified as dwelling units by FHA. They would have FHA lower its 3% equity requirement. FHA contends that—to retain his interest—a builder should have some equity in a project. Also, in view of higher construction costs, builders want Congress to raise the limit on the mortgage allowed per room.

However, easing of money led them to drop one crusade: raising the interest on FHA mortgages (now 5%) for such housing. When money was tight, builders had to take their mortgages to the Federal National Mortgage Assn. in Washington. Scheuer-Stevens and the District of Columbia government are reported to have invoked White House persuasion to induce John Hancock Mutual Life Insurance Co. to pick up their mortgages.

• **High Hopes**—Developers hope that the Eisenhower Administration's recent commitment to long-term support of urban renewal will result in an expansion of the program.

Each year, the earmarking of capital grants for cities has eaten up funds released by the Administration. Last year, during the budget-cutting period, urban renewal funds were held up, and URA had to stop taking applications for new grants. So it came as a surprise to cities—which had been complaining bitterly and had been sending influential businessmen to Washington to lobby for urban renewal—when Pres. Eisenhower in his Budget Message asked for a six-year schedule of capital grants. **END**



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DIVISION BRASS and key men make up new Policy Review Committee, meeting monthly to put performance under microscope.

Two-Way Overhaul Rebuilds Raytheon

Big staff groups imported from outside, working under top trio, help bring costs under control, starts profits moving up.

It took a "thundering herd" of executives (picture, left), working with a special top management triumvirate (right), to put Raytheon Mfg. Co., one of the country's biggest and most diversified electronics companies, back on the road to health and profits.

Raytheon, riding along contentedly in the wake of a World War II and Korea surge, discovered in 1956 that with all its growth, costs were skyrocketing, and profits were vanishing. Today, as a result of a turnaround in management philosophy, executive shifts, and the bringing in of dozens of managers and specialists from the outside, the Waltham (Mass.) concern is well along in the process of bringing costs under control and pushing profits up again.

• **Winning Combination**—Actually, the platoon of executives streaming out of a conference in the picture is only a part of the "thundering herd," as Raytheon's massive 45-man Policy Review Committee is sometimes called.

This committee, made up of key men from various company divisions, meets once a month to chew over company performance and future plans.

Unwieldy though it may seem, the one-year-old committee has been a key factor in helping the triumvirate to revolutionize company operations.

The triumvirate—officially referred to as "the president's office"—is a new entity to which all top staff and division managers now report.

Its principal member is Pres. Charles F. Adams, who has headed Raytheon for 10 years. Second in the group is Executive V.-P. Harold S. Geneen, an energetic former comptroller with a reputation as a company reorganizer and a flair for operations and sales. He was brought in 18 months ago.

The third member, Percy L. Spencer, joined the group only last month, when he was named senior vice-president. He's a company veteran with a national reputation as a development engineer and production man.

It's mainly in the last year that the management changes have come to Ray-

theon. Some men have been shifted around within the company, but most of the new team has come in from other companies and other industries. In all, some 50 top and middle management men have joined the company, setting up new staff groups and establishing tight budgets, cost accounting and control systems. In a sense, Raytheon had to resort to this drastic transfusion of talent to create the organization that many companies build up from the inside as they go along.

• **Problems, Too**—The sudden change of face and pace has created problems as well as solving them. There's still plenty of inertia as well as outright resistance to change in the company. Raytheon is still very much in mid-reform. But it's just this fact, combined with the story of how it came to be in need of reform, that make it an almost classic example of:

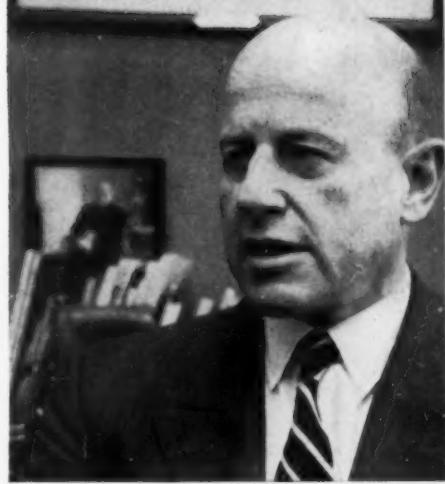
- How changes in an industry, and the sheer growth of a company, can outdate the organization set up to run it.
- How delegation of authority, well-suited to a company at one stage, can get out of control as it expands.
- How tough it is for a research and production oriented company to crack a consumer field (Raytheon, once an important independent TV maker, was shouldered aside by the giants).
- How hard it is to insert new management staff groups in and around an existing organization.

I. Midstream Reckoning

But Raytheon's experience so far would mean little if the company could not already point to some tangible gains from its drastic overhaul. And its top brass can rattle off a considerable list.

As the company stands today, its sales hit \$300-million a year (80% military). It has 28,000 employees spread through nine divisions that turn out a wide range of products. The company makes long-range radar equipment for the Arctic Dewline, as well as airborne and shipborne radar. Its power tubes include magnetrons for other people's radar sets; it makes sonar for the Navy, radio tubes for independent manufacturers, transistors for military and civilian markets, diathermy equipment.

It's gearing up now for volume pro-



TOP TRIUMVIRATE led by Pres. Charles Adams is at helm. Adams brought in . . .

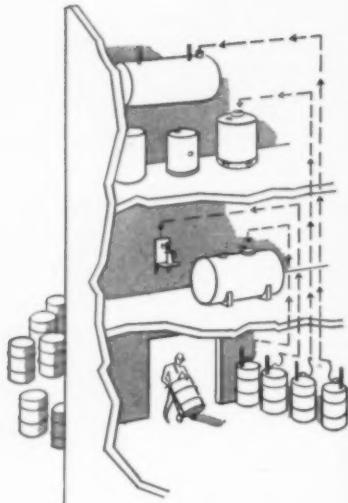


REORGANIZER Harold Geneen, who set up new staff groups, cost controls. Now . . .



PRODUCTION man Percy Spencer joins top group to improve production practices.

Move the contents-



NEW WAY

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Not the drum!



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duction of two missiles it developed—the Navy's air-to-air Sparrow and the Army's ground-to-air Hawk. It has hopes for volume production of other items still on the secret list, and counts on the current defense emphasis on missiles and electronics to keep it increasingly busy—and hopefully, increasingly profitable.

- **Solid Gains**—But Raytheon also bases its hopes on solid gains from its new management setup. The top brass chalks up these results, among others:

- The radio tube division, once in the red, is bringing in profits again, thanks to lower costs and some fast sales work by Geneen.

- The transistor division has also switched from red to black; it trimmed inventories 50% while increasing sales. Its revival was guided by a Raytheon man shifted from another job, with new staff assistance.

- The magnetron division, for years the hard profitable core, has trimmed overhead, improved methods, chopped prices (one magnetron was cut from \$1,075 to \$770).

- Over-all, net profits have jumped from a miserly 0.6% of sales nine months ago to a more respectable 2%.

- Inventory trimming, and tightening up on accounts receivable, have freed an extra \$20-million in cash.

- Raytheon has staunched a long-time cash drain by liquidating its shrinking TV tube division.

In fact, right now, when most companies are concerned about recession, Raytheon has its mind more on the worries of preparing for further growth. There are even rumors—denied, as rumors usually are—that some aircraft companies are eying Raytheon with a view to its possible absorption by merger.

II. Heights and Depths

This time, Raytheon's management is hoping that its upswing will be permanent. For Raytheon has rocketed to record heights and profits before, only to plummet down again.

The first plunge came after World War II, which raised it to a \$173-million-a-year company and brought it a fortune, and a reputation, as the first U.S. company to mass-produce magnetrons—the tiny, complex tubes that create pulse in radar sets. Founder L. K. Marshall tried a switch to civilian products, but by 1948 sales were down to \$54-million, net to 10¢ a share. Marshall was eased out, and Adams—a company director and member of a brokerage firm—came in.

- **Repeat Performance**—Paradoxically, a management mistake after World War II put it into a good position for Korea. Raytheon bid on a lot of postwar government R&D contracts on a fixed-

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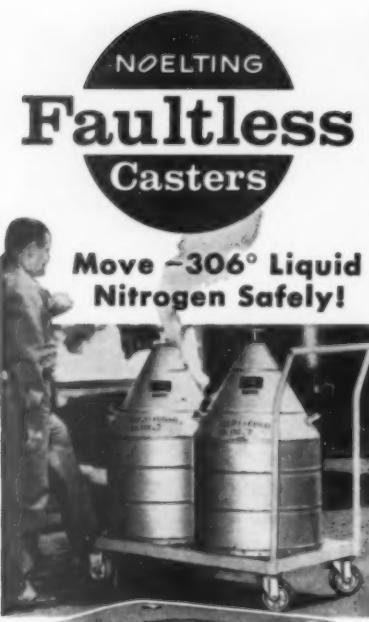
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price basis, got most of them because few others were interested, then lost \$3-million to \$4-million on the lot.

But when Korea came, Raytheon was set to go. Employment swelled from 8,000 to 22,000, sales from \$60-million to \$179-million. Profits hit \$1.68 a share. Even Raytheon's new TV business crawled into the black.

After Korea, military contracts became hotly competitive. Costs, overlooked in wartime, became all-important. But as Raytheon took on more and more projects, effective control over costs seemed to evaporate. By 1955, the company was running out of cash. In mid-1956, with sales still high—\$175-million—earnings tumbled to 45¢ a share.

Part of the trouble was in civilian TV. As the market tightened, the giants with rounded appliance lines and national advertising gradually shouldered aside most of the independents, including Raytheon. How many millions it lost on TV, Raytheon won't say. But in 1956 it threw in the towel on marketing its own sets, though it kept on making TV tubes.

III. Revamping the Structure

That same year Raytheon began reorganizing its over-all structure.

Adams had never made any pretense of being a technical man. He had treated Raytheon pretty much as he would a loose holding company, settling for over-all performance reports and personal contact with operating heads to keep in control. But as company divisions got into more and more projects, busy operating heads had neither the time nor the necessary data to keep track of detailed costs.

- **Talent Import**—Caught between the pressure of rising costs and the shortage of cash, Adams decided to import the needed staff groups Raytheon had never gotten around to building on its own.

His first step was to call in Geneen, who had made a name as an operating man at Bell & Howell Co. and Jones & Laughlin Steel Corp. Geneen set about the job of grafting a complete staff group on to Raytheon. First, to provide information with which to work, came a comptroller's group and new cost accounting systems; then a manufacturing services group, consisting of industrial engineering, purchasing, production control, and capital budget advisers to the divisions.

- **New Setup**—Now divisions that used to report to intermediate operations chiefs have direct access and responsibility to the three-man "president's office." Each division has its own comptroller, its own monthly balance sheet, figures its own return on investment.

At monthly Policy Review Committee meetings, division brass gathers

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en masse to go over performance with top officials. This floodlight glare, plus the information developed by new accounting and production staffs, has made possible the over-all \$20-million savings and the profit rise.

IV. Pluses, and Some Minuses

In detail, you can find the improvements in numerous spots. Geneen gave the radio tube division—which Raytheon had been considering eliminating—a new lease on life by approaching independent radio producers with a persuasive line. If the giants are trying to put you out of the business, why help them by buying their tubes, he asked, arguing that it would pay to help keep a strong independent supplier. Slowly he is making his point.

The commercial equipment division cut \$20,000 from annual office costs by simplifying billing procedures, expects to cut another \$50,000 through new accounting and billing equipment. The same sort of trimming in other divisions is gradually mounting up. In production, continuous small plant improvements have been chipping away at direct labor costs.

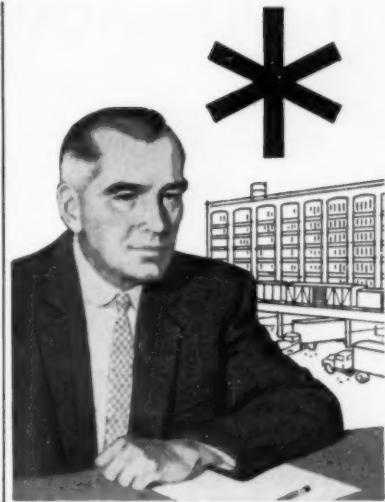
• **Human Problems**—Of course, the new system runs into troubles, too, though it's hard to pinpoint them—largely because Raytheon is still in mid-river, and everybody is chary of rocking the human relations boat.

But you can't bring in scores of new management men without curtailing some jobs, stepping on a few toes. Numbers of division men's hackles rise every time they find ubiquitous staff people at their elbows—like the division chief who once stormed into Geneen's office growling that he didn't want some blasted staff man running off to report to headquarters every time he found something wrong.

Geneen, a believer in psychological testing, tried to pick men of proven talent, with the ability to get along with people. But almost inevitably, some new staffers have been too eager beaver and brusque for the taste of division people.

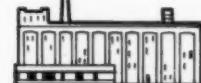
Distrust is disappearing, however; and as long as arguments stay in the open, Geneen says, they get solved pretty quickly—often with him as referee. Yet the sore spots are now shifting from accounting to production, sometimes a touchier field.

• **Second Stage**—With cost data now coming into the divisions, Raytheon is beginning to roll on the second phase of its reform-improving production practice. That's why Adams brought in Spencer last month. Spencer has headed the always profitable power tube division, is the developer of mass production techniques for radar magnetrons and has a flair for production. END



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In Management

Two Directors Quit in Protest at Plan To Sell Cuban Atlantic Sugar Property

The hassle continues at Cuban Atlantic Sugar Co. over the proposed sales of the company's "Hershey properties" to Chiriqui Sugar Mills Corp.

Two CA directors—Francisco Blanco, a Cuban sugar mill operator, and Richard Swan Buell, Wall Street lawyer—have resigned, claiming that the sale would be a violation of the U.S. anti-trust law. They say Chiriqui Sugar is controlled by Julio Lobo Olavarria, Cuban sugar magnate who reportedly sells about 40% of the sugars refined offshore and sold at East Coast and Gulf ports. Sugar from the Hershey group makes up another 20% of this annual 1-billion lb. market.

Blanco and Buell also maintain that the purchase price, \$24.5-million in cash and short-term notes, is far too low for the properties involved: three raw sugar mills, Cuba's largest sugar refinery, and related properties in Havana and Matanzas provinces, including 55,000 acres of land. In addition, the two opponents claim, the group has \$10.3-million in net current assets—cash, receivables, inventory, and advances to farmers.

The proposed sale is defended by CA chairman John L. Loeb, senior partner of Carl M. Loeb, Rhoades & Co., investment banking firm that holds six of the company's 11 board seats and which, with associated interests, owns 45% of the outstanding stock. Loeb says the sale, along with the proposed liquidation of Cuban Atlantic, would net stockholders \$16.25 a share. They would, in addition, get two shares of Cuban Atlantic's main operating subsidiary for each share of CA. (Cuban Atlantic—is listed on the American Stock Exchange—is currently selling for approximately \$23.50.)

The special stockholders meeting on the proposal is set for Mar. 4.

United Air Lines Starts a Move

To Polish Up Brass for Jet Age

United Air Lines, Inc., last week promoted seven of its eight vice-presidents to senior v.p.'s, and appointed 17 new vice-presidents. The move was the first step in what is, in effect, a five-year program to ready the airline's top men for the jet age. United's first jets, 40 long-range DC-8s, are to be delivered in 20 months, and the line expects to be all-jet by 1965. That means changes in maintenance setups, in terminal facilities, in scheduling, in traffic control (BW-Jul.21'56,p156)—and in the thinking of executives.

The 17 new vice-presidents, eight to 10 years younger than the group promoted to senior rank, will give United a team—in the words of Pres. W. A. Patterson—"younger, brawnier, and brainier." The regearing program also includes new electronic installations (for handling reservations and gathering flight information),

extensive terminal remodeling, and a slew of promotions further down the line.

"We have to build specialists," Patterson says, "and the more complicated transportation becomes, the longer it takes a young man to specialize."

Patterson predicts it will take two years for the new setup to develop firm lines of responsibility and areas of command. At present the effect is to broaden the powers of the men involved while leaving them in charge of the same general areas as before. The new vice-president in charge of passenger services, for example, now has to keep an eye out for better equipment and operating processes—and he has the power to buy where before he could only recommend.

The men these new v.p.'s report to—the seven senior vice-presidents—will concentrate on careful, long-range studies on "policy and planning." Patterson points to the selection of new aircraft as the kind of project on which such deliberation is essential. "One mistake in ordering 40 airplanes at \$6-million a throw," he says, "and you're broke."

• • •

Top Men at Kroger Co. Must Carry Their Lunch Trays, Too

The Kroger Co. is cutting the executive dining room out of its new \$9-million general headquarters building now going up in Cincinnati. Pres. Joseph B. Hall vetoed the idea of a separate eating place for some three dozen executives in the head office—he wants them to "get out into the community" at noontime.

Top men who want to grab a quick sandwich inside on a rainy day can do so at the regular employee cafeteria, says Hall, standing in line with everyone else.

• • •

Management Briefs

Raymond Concrete Pile Co., which specializes in foundation work in this country and acts as a general contractor overseas, has revealed its total sales volume for the first time: "slightly more than" \$150-million in 1957. The company will soon change its name to Raymond International, Inc.

International Business Machine Corp. has put all its hourly workers on salary. The change means no wage increase for the 20,000 workers involved, but does mean that they will now get paid for time lost for sickness or personal business (when approved).

Clark Equipment Co., construction machinery maker (BW-Nov.30'57,p74), is now in the cargo van body business. Through an exchange of stock, Clark acquired Brown Trailers, Inc., of Spokane, which last year did a \$13-million business.

Republic Steel Corp.'s expansion program from 1953 through 1957 almost matched the industry's growth rate for the period. Republic added 1.98-million tons annual capacity, up 19.2%; steel industry growth was 19.7%. Incorrect figures for Republic had been given in BUSINESS WEEK (Feb.8'58,p36).

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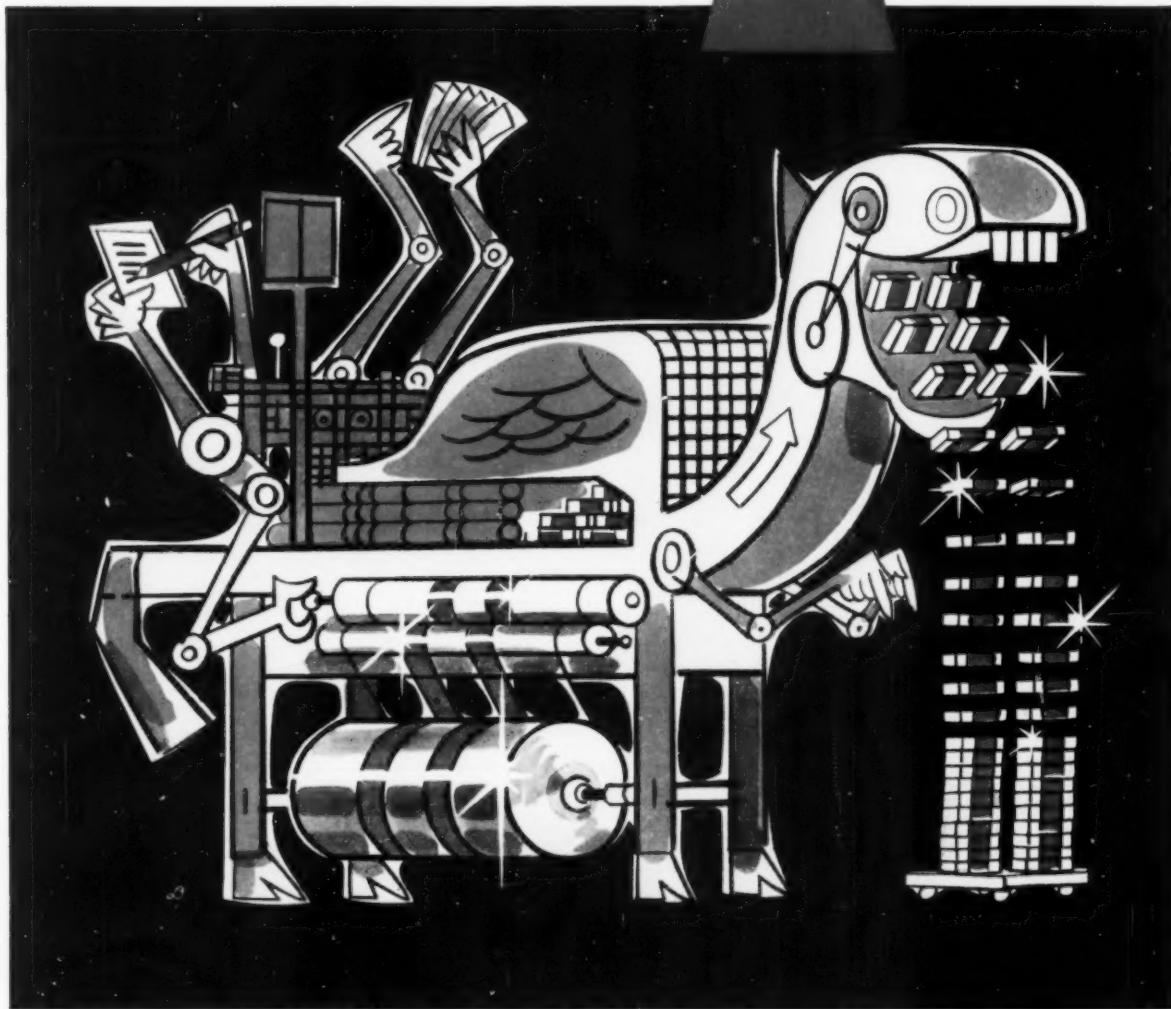
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E. V. Lahey

NEW YORK, N.Y.—It seems a long time ago now (actually it was 1933) that a New York paper proclaimed the news that beer was again legal in the U.S., by spreading across its entire front page the two-word headline: Beer's Here!

Actually, beer as a "news story" is thousands of years old. As E. V. Lahey, president of the U.S. Brewers' Foundation, points out: "Beer is older than history. A clay tablet

which has come down to us from ancient Mesopotamia reveals that more than 5,500 years ago, brewing had become a highly respected profession."

It was a custom of the ancients, too—one *not* popularized today—to sip the fermented malt beverage through reeds or, in the case of royalty, straws of gold.

Its Popularity Constant

Long hailed as the light, bright beverage of moderation, beer, through the ages, has remained consistently *the* popular drink, often esteemed as a

relaxing medicine as well as a favored "food-beverage." It's been a staple on the American scene since our earliest colonizations—even before the Pilgrims landed at Plymouth instead of farther south as planned: "Our victuals being much spent, especially our beere . . ."

Today the U.S. has a tremendous stake in the brewing industry. Our fifth largest taxpayer, it poured more than a billion dollars into federal, state and local treasuries last year. And industry personnel paid out another \$200 million in income and other taxes.

Altogether, disbursements totalling more than 3 billion dollars were channeled directly to such U.S. beneficiaries as the farmer, businesses of many kinds and their workers, and government. And the industry's own payroll, livelihood of some 82,000 employees, swelled these impressive outlays by close to another half-billion dollars.

Trend Toward Canned Beer

Basic to all brewing is sanitation, surely one good reason for the pronounced trend in recent years toward beer in cans—cans of steel. The "tin" can is 99% steel, thinly tin-plated to prevent corrosion. Steel offers such other advantages, too, as:

Economy—steel's low cost in contrast to other metals. Its inherent and



lasting strength; its ready availability. No wonder the brewing industry is second only to fruit and vegetable canners as a customer of the can manufacturers.

So popular is beer in cans today that brewers filled a record 8 billion cans of beer and ale in 1956, consuming more than a billion-and-a-half pounds of steel and tin.

Particularly important is the fact that beer in cans keeps its peak of flavor and nutrition for long periods. The can is spotlessly sanitary, non-shatterable, easy to open, easy to handle and to store in convenient carton packs. And its light weight is an advantage in shipping by rail or truck, and in carrying from the store. It's an ever-handy hospitality-dispenser in the home or on outings.

National's Role

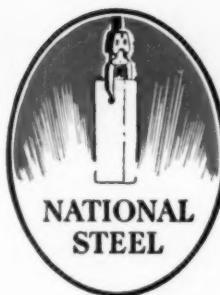
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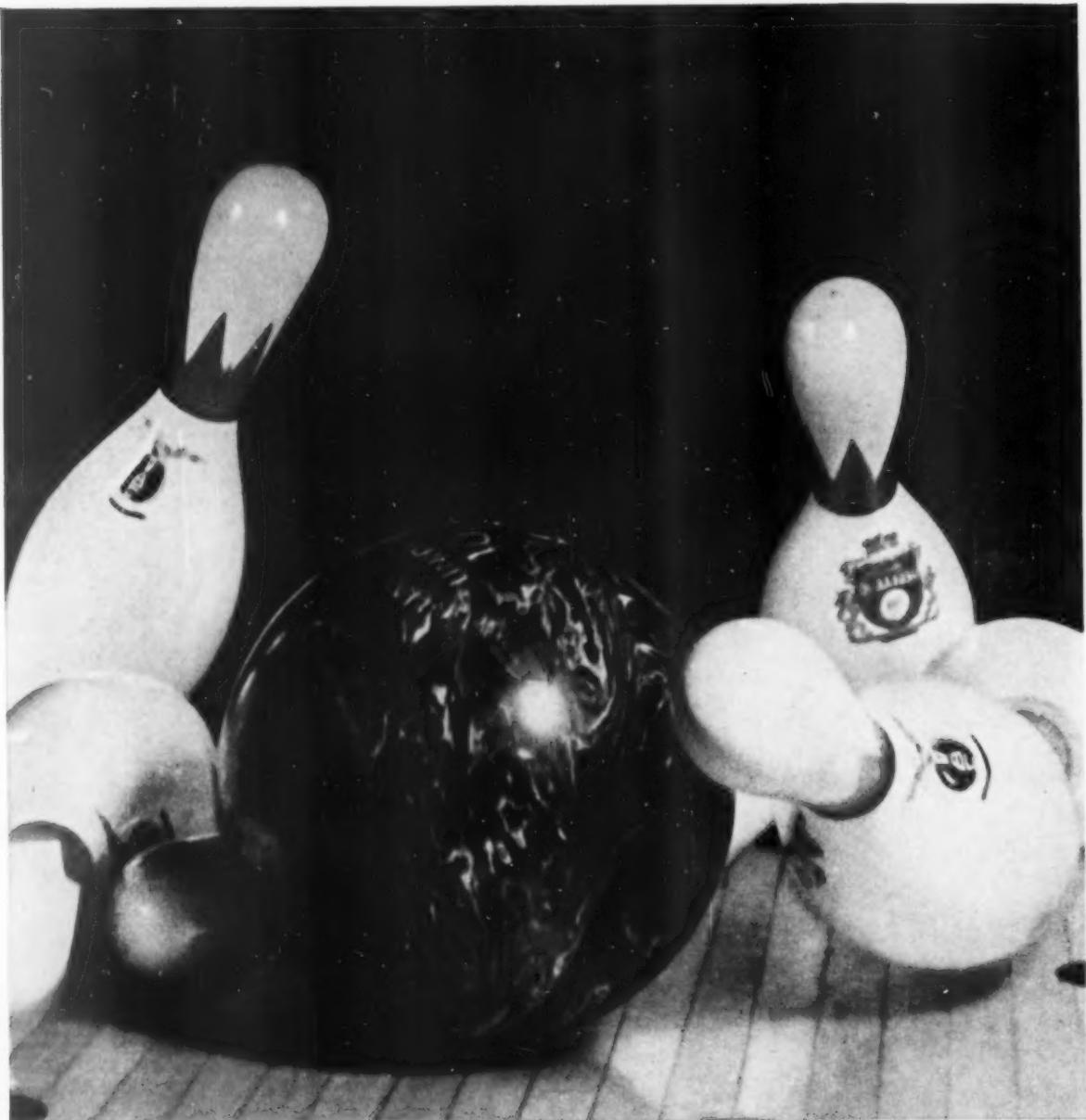


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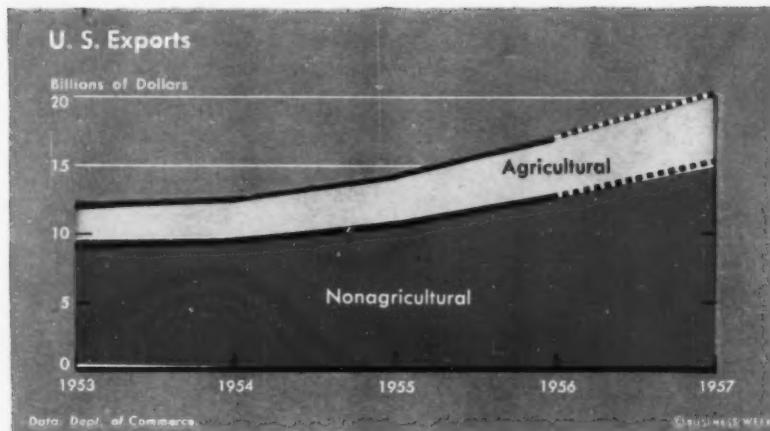
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CHARTS OF THE WEEK



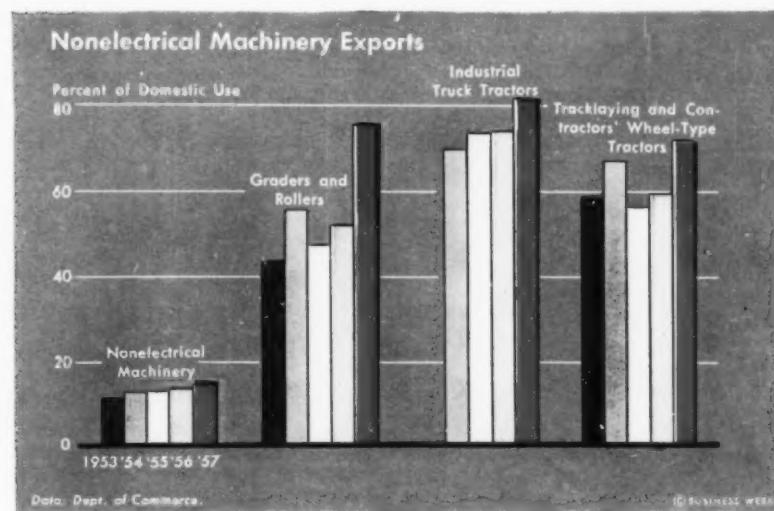
U.S. Exports Still on Upswing

U.S. export trade expanded during 1957, following a similar rise in 1956. Although exports tapered off after the first quarter's exceptional \$20-billion annual rate, they were unusually high for the whole of 1957. Expanded exports stimulated domestic business.

Nonagricultural products—largely producers' supplies and materials, and capital equipment—comprise the bulk of

U.S. commercial exports. Trends in exports of industrial materials are closely linked to the movement of business in Western Europe, this nation's principal customer; capital equipment exports are closely tied to conditions in Western Hemisphere countries.

The following charts show the importance of the export market for various commodity groups and products.



Capital Equipment Makes Gains

Exports of capital equipment in 1955 and 1956 expanded by 8% and 22% respectively and continued to rise during the first three quarters of 1957. But the gain started to taper off some-

what in the third quarter last year.

Exports of nonelectrical machinery to all nations amounted to less than 15% of domestic use in 1957, but exports of major items of nonelectrical ma-

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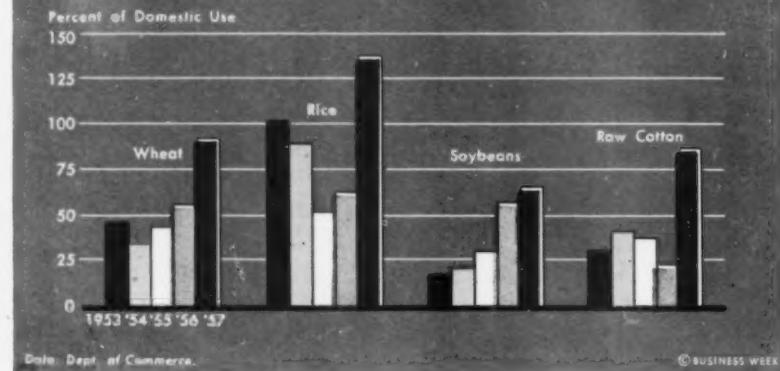
Ask our man!



chinery such as graders and rollers, trucks and tractors amounted to 70% to 80% of total domestic use.

Canada is the most important single market for American-made machinery and capital equipment.

Food and Agricultural Products Exports

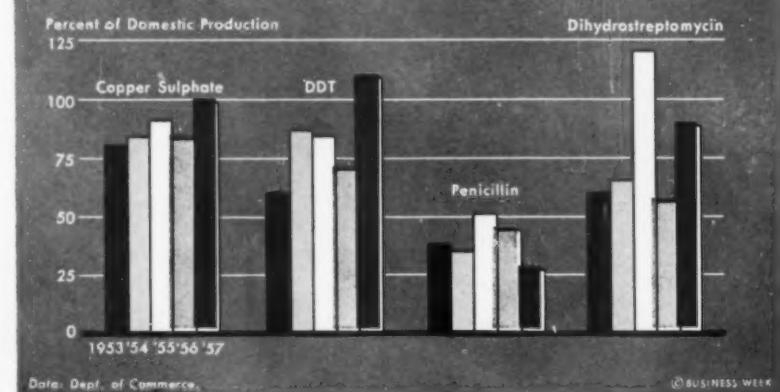


Sharp Rise for Food, Cotton

More striking than the export ratios of capital equipment are the ratios for food and agricultural products. Last year the domestic use of wheat and rice declined and the use of soybeans rose slightly. But because of the sharp rise in these food exports, they show striking increases over 1956 when expressed as a percentage of domestic use.

Raw cotton exports, soared to a 23-year high in the crop year ended July 31, 1957. Increased government financing and the government export subsidy making U.S. cotton prices competitive with comparable foreign growths were important factors in the rise. Exports amounted to 87% of domestic use.

Exports of Chemicals and Drugs

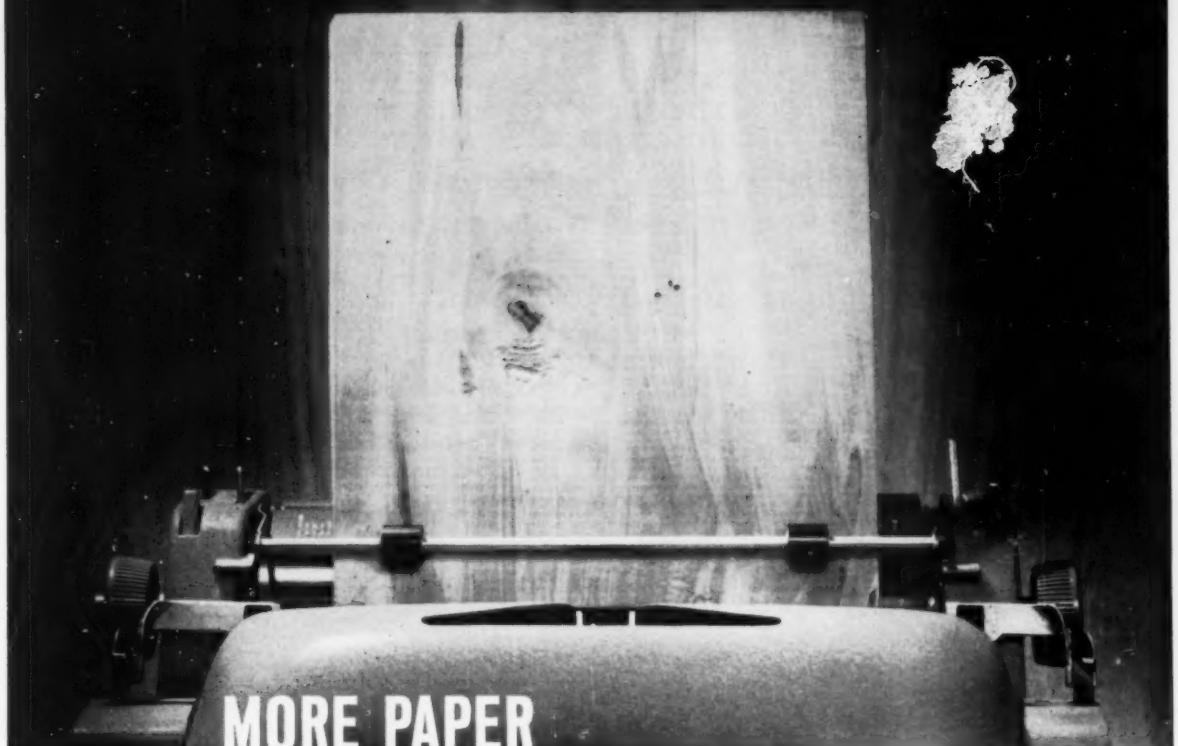


Drugs, Chemicals Shoot Up

Export sales of chemical pesticides such as DDT and copper sulphate and of the new antibiotic, dihydrostreptomycin, are running close to or even exceed domestic sales. This is despite the big gain in domestic use of these chemicals and drugs. Expansion of

U.S.-producing facilities abroad in many instances has kept direct U.S. exports from rising even more sharply. Among the drugs, only penicillin showed a decline in export sales as well as a decline in the ratio of exports to domestic use.

CHEMAGINATION



MORE PAPER FROM HARDWOODS

Here's what can happen when an industry puts *chemagination* to work.

Cheap, fast-growing aspen wood has long been used in the production of paper. This bountiful source of pulpwood can be processed to replace more desirable but less abundant supplies of other woods to meet growing needs for paper.

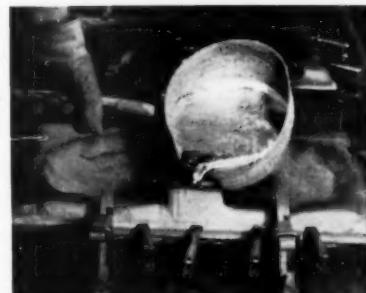
Now, a new process promises to extend our vital pulpwood supply. It boosts the yield of pulp from aspen and other hardwoods to an amazing 96%—almost double that of conventional pulping processes.

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As a leading supplier of chemicals to the pulp and paper industry, Hooker is close to this development—sponsoring basic research to make the process more efficient and the end product more useful.

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In Marketing

Put That Hairpin Down, Mama; Gold-Plated Tools Are Nearly as Good

The old gag about giving your wife a set of tools for her birthday may become fact.

Pendleton Tool Industries, Inc., of Los Angeles, maker of hand service tools, will soon market kits of glamorous chrome or 22-carat gold-plated household tools designed for women. The company (formerly Plumb Tools) has formed a new subsidiary, Consolidated Tool Co., which will introduce the "Diligent Duchess" kits in prestige department stores and other outlets during the first week of April. Prices will range from \$9.95 for the six-tool chrome kit to \$49.95 for the 10-piece set in gold plate.

The tools are smaller and lighter than most hand tools, but are made to the standards that made their manufacturer a leading producer.

A market survey convinced Pendleton that tools used in the home are in the hands of women better than half the time and that many women use them with authority. The survey also revealed that women grab anything handy—an ice pick for an awl or a knife for a screwdriver, practically anything for a hammer.

The introduction of the Diligent Duchess marks a marketing departure for Pendleton. For the first time, the company will be dealing direct with department stores.

Caught on Wrong Side of Development Tract, Pittsburgh Department Store Calls It Quits

Another venerable department store—this time in Pittsburgh—has given up the ghost.

Ironically, Boggs & Buhl, once Pittsburgh's most elegant department store, is only a few blocks across the Allegheny River from the city's rejuvenated Golden Triangle. But while the Golden Triangle is thriving, development of the northside business district never got off the ground. The area's deterioration, the traffic congestion, and the advent of shopping centers proved unbeatable, says Joseph F. Sprankle, Jr., Boggs president.

Because of its location, Boggs had drawn most of its customers from its immediate neighborhood and north suburban communities. The opening in 1957 of the North Hills Village Shopping Center only five miles away proved the final blow.

In 1947, the company underwent a partial modernization. In 1954, it took further steps to boost sales:

It leased first-floor space to Thorofare Markets food store (which will continue to operate there even though the rest of the store is closed). It started giving trading stamps, set up a Sperry & Hutchinson redemption center at the store. It installed a supervised child-care center, added parking facilities, opened an additional evening.

Sales continued to slip. In 1957, when Pittsburgh's

MORE NEWS ABOUT MARKETING ON:

- P. 106 Carnation's New Products Pick Up Momentum—Despite Their High Cost
- P. 114 Profits, Not Volume, Become Manufacturers' Prime Concern

total department store sales climbed 1.4%, Boggs' sales were off 5.4%. It would take a \$1-million capital investment to really modernize, Sprankle estimates. So Boggs has called it quits.

Distillers Are Hostile to Michigan Plan To Extend Payment Terms to 90 Days

Michigan's Liquor Control Commission has a plan to get more money into the state till: Extend the commission's terms of payment to distillers from the present 30 days to 90.

Rep. Rollo G. Conlin has introduced a bill that would allow revolving fund monies to go into the general fund. So, if the state had 60 extra days of grace before it had to pay its liquor bill, it would have about \$16-million extra in the treasury at the end of the fiscal year. This probably wouldn't offset its deficit, which may run to \$35-million, but it would help.

The distillers are up in arms against the proposal. "Most states need money, and it would be just an invitation to them if Michigan gets away with it," one commented.

The big question is how federal tax people would view the move. The law frowns on credit terms that might hurt some suppliers. Some smaller distillers might not be able to carry the 90-day credit.

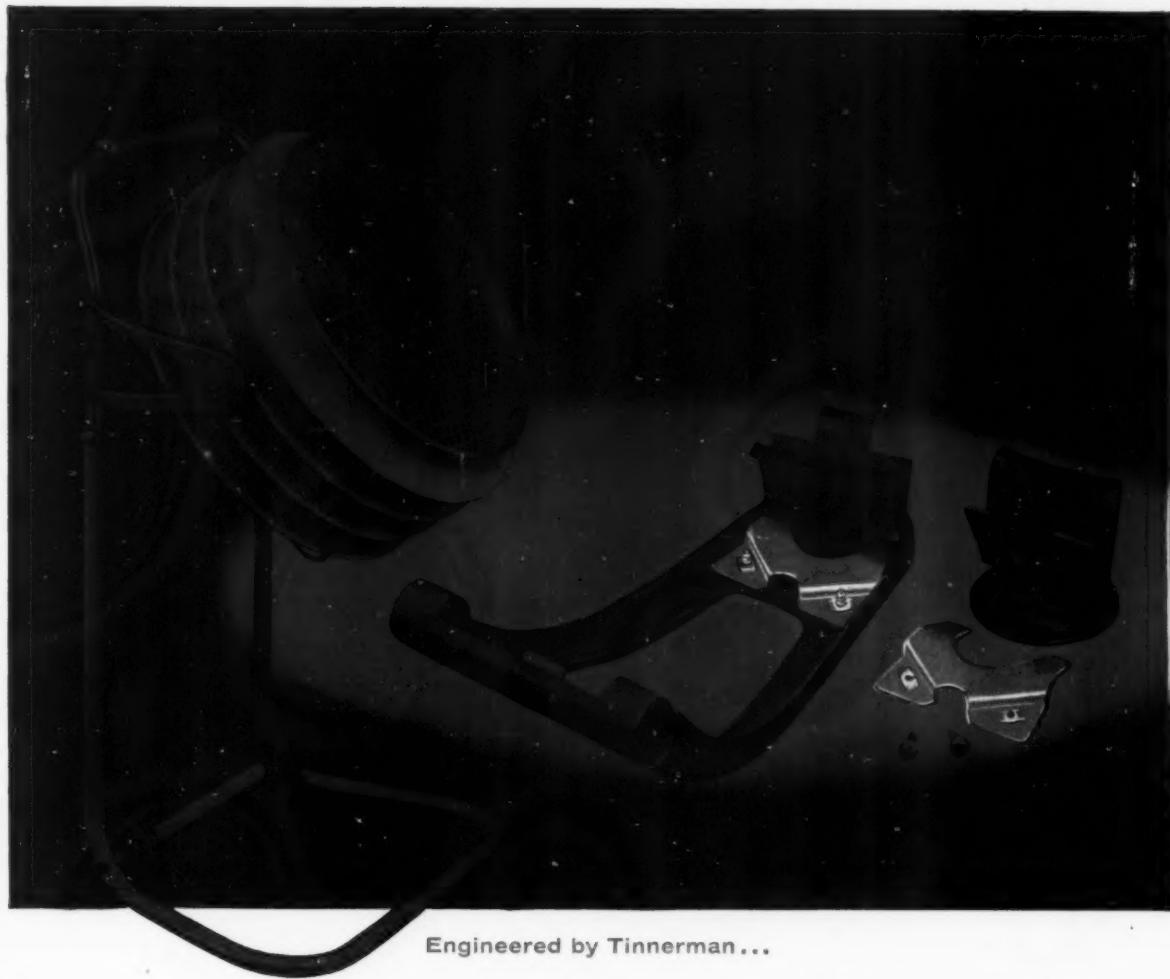
The Treasury Dept.'s Dwight Avis is reportedly willing to go along with the 90-day terms if every distiller agrees. So far, distillers supplying 90% of Michigan's liquor are said to have accepted the new terms. But they would also probably charge interest on the unpaid money—and the state might well raise liquor prices to meet that charge, industry spokesmen point out.

Westminster Adds a New Note To Surging Record Club Business

With RCA Victor, Columbia Records, and others deep in the record club business (BW—Nov. 23'57, p77), Westminster Records is coming out with its own version. While some of the clubs may bypass the dealer, Westminster's plan works only through its dealers.

The Preview Plan offers to consumers a disk (or two, one classical, one popular) at 25¢ each. Each preview disk contains excerpts from four Westminster records. Along with each disk, the consumer gets four coupons, each worth \$1, toward the purchase of any of the four records excerpted. To get the completed record, the consumer must go to a dealer.

The first coupons will be honored between Mar. 1 and Apr. 30. Other preview disks will follow.



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Turn this Westinghouse Mobitaire® Fan to any angle...and it *stays* angled. The Tinnerman SPEED NUT Brand Fastener that holds the fan trunnions tight to the housing also supplies live spring-tension to keep the fan positioned at any angle you choose.

These SPEED NUT fasteners, developed by joint efforts of Tinnerman and Westinghouse designers, eliminate special adjusting thumb-screws. Only 2 SPEED NUT parts serve the purpose of several stampings and ordinary fasteners. Material and assembly costs are lower than with ordinary fastening methods. And the consumer gets a better fan that's easier to adjust.

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Speed Nuts®



FASTEST THING IN FASTENINGS®

New Lines

Long established in evaporated milk, Carnation Co. has invested dash—and a lot of cash—in marketing instant milk products.

It is practically impossible to find a company that dares admit today it isn't interested in launching more and more new products.

That's one reason why Alfred M. Ghormley (cover), president of the Carnation Co., finds it easy to get a rise out of an audience when he tells them that Carnation has to invest \$3-million to \$5-million in a new product before it begins to make money for the company.

You may argue, as some do, that Ghormley's figure is an exaggeration. After all, thousands upon thousands of new products hit the market every year, and obviously not many of them carry such a big price tag.

But it's hard to dispute the fact that in the vastly expanded economy today, where competition is ready to pounce on your every move, the complexities of marketing a new product—and then making sure you carve out a firm and profitable position for it—have sent costs soaring.

- **Food Revolution**—This is probably nowhere more true than in the food business, with its supermarket revolution in which products fight a jungle battle for shelf space.

Yet, despite all the cost and trouble, Carnation has in the past few years become dedicated to a policy that aims to produce new products faster than ever.

For years, the West Coast company, like the cows in its slogan, was contented with its evaporated milk, first marketed around the turn of the century. That initial venture into what has become known as the convenience food field is still a thriving business, with practically 100% distribution in stores across the country. Not until 1926 did Carnation make another move—this time into the fresh milk and ice cream business. Then, in 1929, it acquired Albers Milling Co. and entered the cereal and animal, poultry, and pet food field.

- **Basis for Change**—Its present policy, dating back to about 1953, is a switch from those early, leisurely days. As Ghormley proudly states: "We have new products on the fire in every department." The reasons are obvious:

- You have to bring out new products just to match the revolution in the food business. Half the products on grocery shelves 10 years from now will be new.

- Besides that, in an economy



CONTENTMENT of Carnation's Pres. Alfred M. Ghormley could stem from success of the company's new Instant Milk. New product's debut cost \$3- to \$5-million, he says.

Make Carnation More Contented

where distribution costs are climbing rapidly, it's smart to add products that can utilize and share the cost of present marketing facilities, particularly when you can trade on a brand name like Carnation. The sales organization is already in the field; there is an advertising program that, with little added cost, can be put to work, and with each new product the whole brand-name image becomes stronger in the public mind. Carnation's vice-president for marketing, Ralph R. Brubaker, says: "The impact is geometric, the cost only arithmetic."

• Finally, there's a ready public for the convenience foods in which Carnation specializes. People are spending only an hour and a half a day now preparing food, against six hours a generation ago. If Carnation doesn't take advantage of the trend, somebody else will.

I. Rules for New Products

By now, Carnation, as Ghormley's cost estimate indicates, has a clear notion of what the modern marketplace demands when a decision is made to push a product across the country. Its new product policy starts, first of all, with Ghormley's insistence on three things:

- A new product must carry the company's cherished and valuable Carnation label without the danger of a serious flop. It has to merit big advertising and command public respect.

- Because of the profusion of new products (Sam Cooke, president of the

Penn Fruit food chain, estimates that a food store buyer is offered 150 to 200 new items every week), the product has to be a major improvement of a present one or else a new convenience item.

- All of this, says Ghormley, should result in a new product with "longevity." That's because your big payout comes after the heavy promotion costs at the beginning have been absorbed. If the product can't maintain its momentum over a long life, then the initial promotion costs eat up the profits.

- Costs Pile Up—With these ground rules established, costs begin accumulating even before you have a new product ready to make. As Brubaker explains it:

"You don't just make a product and see if you can use it. Today you have to find out what is needed, what form people want it in, the price they're willing to pay, and the potential size of the market."

It is only after such market research that you go back to the product, see if it can be made, and at a profit.

This can be expensive. Carnation's director of research, Gerald Brown, lists three steps necessary to keep from flopping:

- Qualitative research—depth interviews, which cost as much as \$100 each, to determine strengths and weaknesses of existing products.

- Quantitative inquiry—to find out how many people feel the way the depth interviews indicate.

- Test marketing of the proposed

product. "You need to test in six markets now," says researcher Brown, "with at least one of them a major metropolitan city and all of them varied in size, area, and income groups. This costs money—and the cost is increasing all the time."

- Six-Month Trial—Ordinarily, Carnation likes six months of test marketing. Because of this careful policy, Carnation prefers to move into wide distribution one market at a time, saturate that area, then move on to the next, as it has done with frozen foods and Friskie dog food. It depends, though, on the product. If, for instance, a product needs heavy promotion but isn't spanking new, then it is better to carve out distribution slowly. This way you can get some of the heavy promotion costs back, market by market, to help pay the way for new penetration.

II. A Product Is Born

Of course, a company has to be prepared to scrap its normal procedures when competitive circumstances demand. That is exactly what happened at Carnation when it launched its non-fat dry Instant Milk. Marketing tactics demanded an explosive distribution drive—and all the heavy costs that entails.

Carnation had a non-fat dry milk of its own ready for the market in the fall of 1953, but it wasn't happy with the product. Its consumer research concluded that the public wasn't too happy with powdered milks then available, because they didn't dissolve easily

STRATEGY for campaign to launch Instant Milk was drawn at top-level sessions of marketing, sales, advertising brass.



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and they didn't taste too much like milk.

Even so, the market was there. Sales for home use jumped from 26-million lb. in 1948 to almost 100-million lb. in 1953. Hence, Carnation was going into the field, but reluctantly. Besides, lots of dry milk was being used by food processors and there was some consumer dietary interest.

But, says Brubaker: "It was strictly a me-too proposition, and we weren't really happy."

• **Discovery in Sacramento**—The break came in February, 1954, when Carnation field staffs ran across a new product being test marketed in Sacramento—an instant milk developed by David D. Peebles, a food scientist and founder and president of Western Condensing Co. Samples were rushed to Carnation headquarters in Los Angeles, where the product easily passed the test of dissolving quickly and tasting better than anything then on the market. Two days after Western's test marketing began, Carnation roared into Sacramento to monitor the results. They were sensational.

The product was the talk of the trade. Since consumer testing already had been done and time was short—what with competitors such as Pet and Borden ready to launch their own instant products—Carnation started moving fast. Shortly after May 10, 1954, when another test was started in Fort Wayne, Ind., Carnation completed arrangements with Western to form the Instant Milk Co., ownership split 50-50, with Carnation doing the marketing job. Carnation's investment was \$1.5-million (it later took over 100% control when Western Condensing was bought up by Foremost Dairies).

Because of the competition, Carnation decided (1) to junk the usual six-month, six-city testing and (2) to go into national distribution just as fast as possible. It did make one telling test, though. Since, in Sacramento, Western had probably overpromoted the item, Carnation purposely underpromoted it in Fort Wayne—and still results were good. In addition, it staged a pricing test in Los Angeles.

• **Expensive Tactics**—Then the costs really began mounting. Western's product was packaged in boxes. Competing dry milks couldn't use this sort of container because of their tendency to cake. Carnation decided to design its own box—and add a spout to emphasize the advantage. The spout was expensive, but Carnation figured its competitor would have to follow suit; so their price advantage would be wiped out. Carnation hired the package design firm of Jim Nash & Associates, and by June 15 the package was ready. Carnation's new label replaced the Western label in Fort Wayne on Aug. 1 for a final month's

testing before the formal launching of the product.

On this venture, Carnation went in for a lot of new tactics. It hired a public relations firm just to handle the introduction campaign; taste panels were employed for constant research on the product; A. C. Nielsen Co. measured total consumer movement at retail; Gallup & Robinson provided impact ratings on printed advertising—and the company even subscribed to a motivation research study conducted by Ernest Dichter.

• **Distribution Moves**—Once the Instant Milk Co. was set up, Carnation's marketers pitched into the most frantic distribution operation for a new product in company history. Sales officially started Sept. 1 in Los Angeles. Within two months Carnation's Instant Milk had hit San Francisco, Dallas, and New Orleans. Speed of distribution by now was controlled by production. Western's one plant could supply the 11 Western states, but not until Carnation converted its Chilton (Wis.) plant (where it had planned to make its own version of dry milk) could it add new markets. That began in November, 1954, and by Jan. 15 Carnation Instant Milk was national—just four months after formal introduction.

III. High Cost of Innovation

Such big-scale and rapid distribution eats up your sales dollar in man-size bites. First, there is the problem of getting into distributors' warehouses. In a sense, you have to buy your way into them, since they already are crowded with fast-turning items.

Says Brubaker: "The primary distributors (the big chains and the voluntary associations of independent retailers) know the value of warehouse space. You have to offer them something above normal."

In the case of Carnation Instant Milk, this meant offering warehouses a 50¢ case allowance plus advertising allotments and the like. Brubaker figures the cost of national distribution in warehouse space alone for one new product will run between \$125,000 and \$150,000.

• **Selling Consumers**—Then there is the need to expose the product to the consumer—to make sure goods start turning quickly. This means big advertising budgets. For Instant Milk, Carnation relied heavily on newspapers; then, as the product got rolling, it added commercials on spot television, network radio, and its national TV program, Burns and Allen. The first national ad appeared in Life Feb. 14, 1955.

Most expensive, though, is the necessity of buying the consumers' interest—and to continue to do so until the

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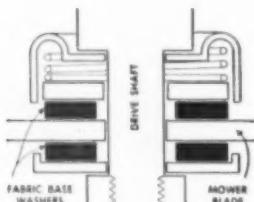
How a Taylor Laminated Plastic safety clutch protects rotary lawn mower crankshafts

Friction disc assembly permits clean cut, prevents damage to drive mechanism

Running into rocks or other solid objects with a rotary lawn mower is not a recommended practice, but it is possible to strike these objects without damaging the drive mechanism.

A laminated plastic safety clutch assembly does the job. Two Taylor Laminated Plastic friction discs, mounted as shown in the drawing, drive the cutting blade with positive force until a solid object is struck. When this occurs, the clutch assembly absorbs the shock, the discs slip, and the blade stops without impeding the operation of the driving mechanism—all parts are protected from serious damage.

Perhaps you have a similar problem—or others that can be solved by using either laminated plastic or vulcanized fibre parts. Our application engineers will be glad to help with your specific needs and recommend the material best suited to your application. Get their assistance by contacting the Taylor sales office nearest you.



CROSS SECTION of slip clutch assembly showing arrangement of components on crankshaft of rotary lawn mower.

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"... 'wonderful as the instant milk discovery was, we regarded it as a 100-yd. lead in an 880-yd race' . . ."

CARNATION starts on p. 106

product is rooted in the consumers' brand preference.

• **Selling Retailers**—That's not the end of it. Retailers want to make a profit during the transition from a new product to a well-established one. The upshot: hefty advertising allowances, amounting to 20¢ to 25¢ a case, that cut the product cost to the retailer and induced him to push it.

Today, says Brubaker, the retailer wants only products that have been heavily market-tested, and he wants an introductory deal that isn't passed on entirely to the consumer. Besides, he demands what Brubaker calls a "clean proposition"—no fancy coupon gimmicks that require extra cash register time or 2-for-1 duplicate deals that, when the drive is over, leave the warehouse with mixed merchandise.

Most important, you have to convince the trade that you aren't replacing something that already is selling well. He wants new business.

In addition to all its other inducements, Carnation used free recipe books for the new product, teams of girls for in-store demonstrations, free samples, and point-of-sale material.

• **Follow-Through**—Then there is the follow-through, a must according to Brubaker. Carnation received daily reports on its distribution to find weak spots.

When sales began to lag, Carnation hit back hard with half-price promotions to get action. This was necessary partly because competitors began promoting their products as instant—taking the edge off Carnation's impact.

"Wonderful as Peebles' discovery was," Brubaker says, "we just regarded it as a 100-yd. lead in an 880-yd. race."

• **Bigger Boxes**—Just about the time Carnation had the 3-qt. size in all markets, it had to counter Borden's move into a 12-qt. size. Carnation already had found that Dept. of Agriculture figures showed average milk consumption per family was eight quarts a week, so it had begun planning a package that size. It decided to win the battle of the big boxes with an all-out campaign. Gobs of money, says David Ghormley, manager of the Instant Products Div., were spent on consumer and trade deals, advertising, and promotion. The case allowance was raised from 50¢ to \$1, and customers got a 50¢ coupon on a 69¢ box—meaning a 19¢ price tag for an 8-qt. box.

Within a month, the big package



This is the center of industrial America

Here, good hunting is just a few minutes from home. And the hurry-scurry of business seems worlds away!

Yet, a few miles from here is an industrial region producing such diversified products as sanitary ware; cement and explosives; brass, aluminum, iron and steel products; mirrors and glass; plastics and chemicals; luggage and dinnerware. This is a region hewn out of the forests, and abounding with plenty of outdoor life.

Here, father and son—the whole family—can grow together in quiet contentment. For they live "out in the country" in the heart of the industrial center of America, overnight from the largest concentration of buying power in the world.

Here, good business and good living go hand in hand.



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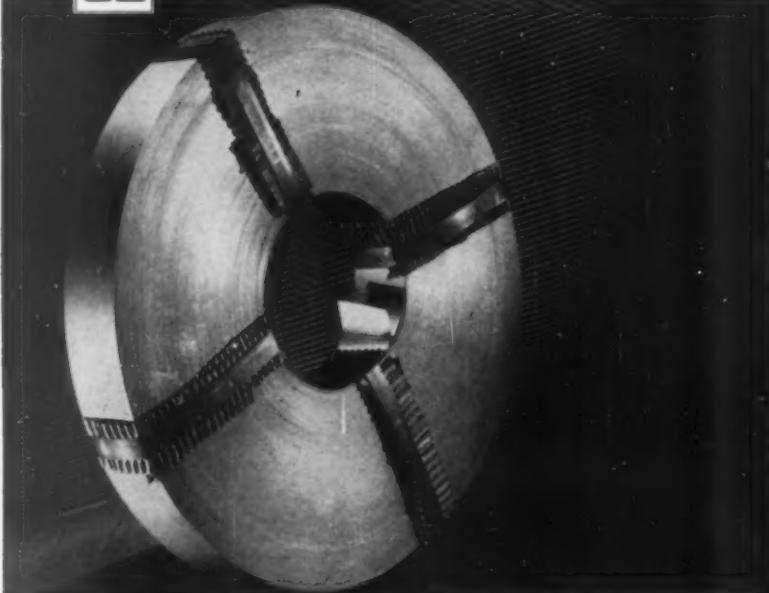
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was in all markets and had become a best seller—40% more, claims Ghormley, than all others combined. Next size: 1 qt.

Since it launched its Instant Milk, Carnation has added instant chocolate-flavored drink, now bills it in the same ad with the regular dry milk as: "Two new milk discoveries from Carnation."

• **Longevity Achieved**—Mark Shackelford, Instant Products advertising manager, thinks the company hasn't yet exhausted the new product exploitation possibilities—even though its instant milk has been on the market nationally for three years, a pretty good indication that the product has what Alfred Ghormley calls "longevity."

Today, in an increasing market where total sales are well over 150-million lb. for home use, Carnation's Instant Milk has cornered a share that it says amounts to more than 30% (Borden has just under 30%, Pet 15-20%, and private brands the rest, Carnation says.)

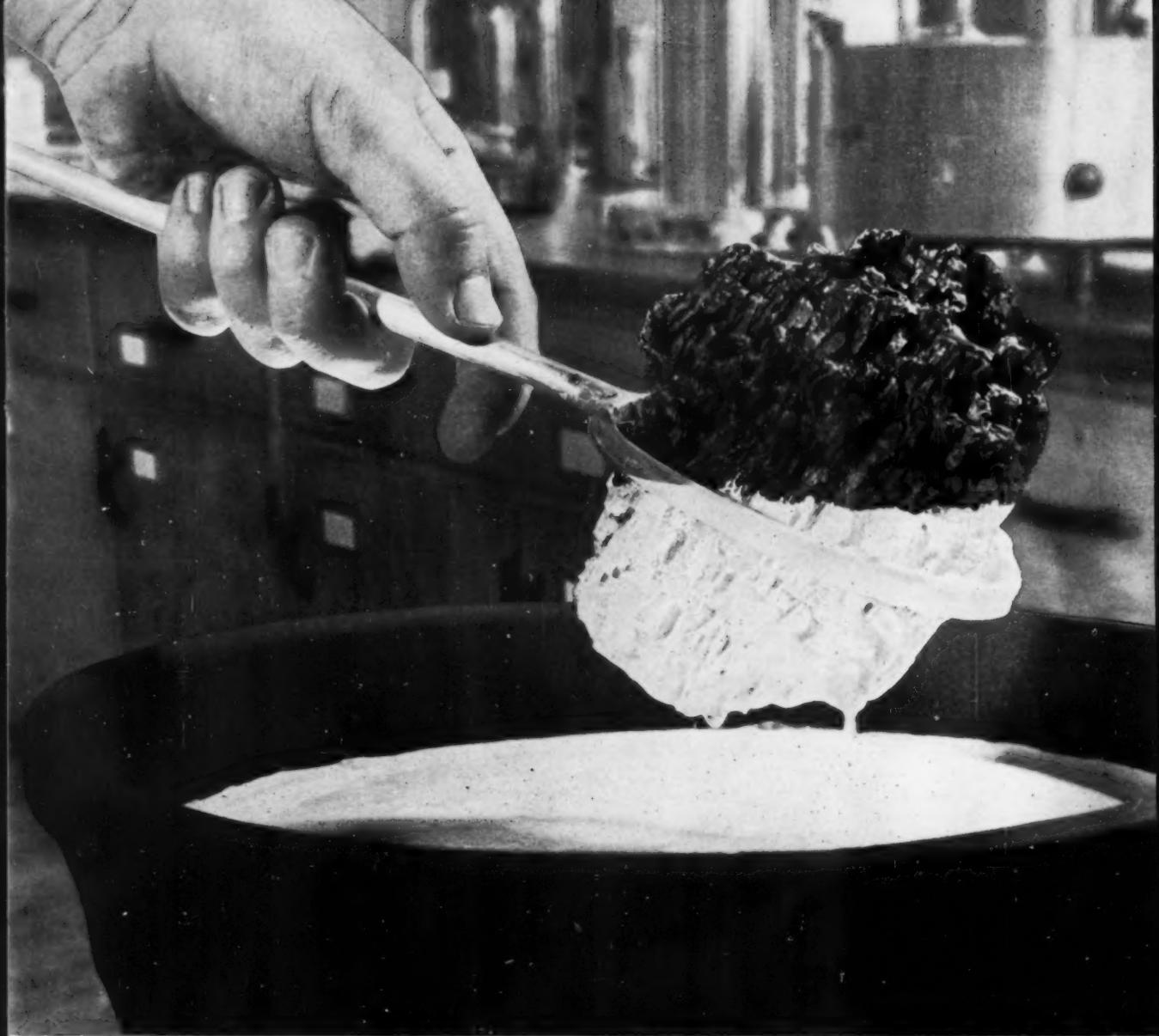
• **New Directions**—Moving from a standing start to product leadership in 2½ years probably wouldn't have been possible without Carnation's decision to add new sales and marketing talent from the outside after the war. It had invested heavily in its traditional products—with experimental farms and the development of a superior strain of dairy cattle. But too much of its sales were tied to older products in a rapidly changing market.

Today, Carnation has nationwide distribution of its evaporated and instant milk products and nearly complete national distribution of Friskies canned and dry dog food. It still limits its Albers feeds to 12 states, but its cereals now cover 19 states and are being expanded—along with two new instant products, corn bread and muffin mix. Its Simple Simon line of frozen products, which it acquired in 1955, is sold coast-to-coast, but with gaps that leave it 50% coverage in supermarkets.

• **Instant Breakfasts?**—Under Ghormley, who became president early last year after 42 years of working his way up through the organization from a job as farmhand at Carnation Milk farms, the company is certain to continue to pursue its new product policy.

What products next? Nobody at Carnation is saying, but neither Ghormley nor his marketing head, Brubaker, thinks the investment in the "instantizing" research facilities at Van Nuys, Calif., will go to waste.

Brubaker hints: "Breakfast is an example of the need for more convenience foods." But he won't comment on whether that means, say, instant orange juice or instant tomato juice. New products cost too much to develop and introduce to hand to a competitor. **END**



Dye maker brightens fuel cost picture

Burning coal at Toms River-Cincinnati saves 20% on fuel costs, permits clean steam generation

The ultra-modern Toms River-Cincinnati Chemicals Corp. plant in Toms River, N. J., produces millions of pounds of dyes a year. A large, dependable steam supply is necessary in this operation for chemical processes and heat. To fill these requirements, the firm's power plant burns *coal*—since the cost of the nearest competitive fuel runs 20% higher. In addition, thanks to automatic operation and modern equipment, the power plant meets the rigid standards of cleanliness required

in such manufacturing operations.

Consult an engineering firm

If you are remodeling or building new power facilities, consult a qualified engineering firm. Such concerns—familiar with the latest in fuel costs and equipment—will effect great savings for you in efficiency and fuel economy over the years.

Facts you should know about coal

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For additional case histories on burning coal the modern way or for technical advisory service, write to the address below.

Aim Now Is Profit, Not Volume

- In the midst of a recession, the goal of most companies is "getting more out of the sales dollar."
- Many concerns are redeploying their sales forces—or expanding them—for a more concentrated sales effort.
- A good many also are trying to improve distribution systems to make for greater efficiency at reduced cost.

"The guy who sits back on his haunches and waits for that second-half pickup we're hearing so much about is going to be left at the hitching post."

That admonition comes from a marketing executive of a medium-size Toledo manufacturer. He was one of many buttonholed this week by BUSINESS WEEK reporters around the country who wanted to know what companies are doing to offset the profit squeeze from (1) declining volume and (2) increased distribution costs.

• "Sales for Profit"—Each time there's a letup in the economy, of course, you hear the universal cry from top management for the "hard sell." That's true this time, too. In Milwaukee, for instance, a power equipment manufacturer thinks the only important way to beat the problem is more volume. But today, the attitude of more and more companies matches that of a Louisville consumer goods company that says management has changed its policy from one of "sales for volume" to "sales for profit." It cost one top executive his job, because he didn't go along.

In fact, from every part of the country and from almost every kind of business, the watchword turned up by BUSINESS WEEK's survey was efficiency—"getting more out of the sales dollar" either by (1) cutting the actual amount of money being spent for marketing or (2) redirecting the money and manpower to do a more effective job, even at the expense of adding to the budget.

I. Concentrated Selling

How do you go about translating those goals into results? Hardly a single company BUSINESS WEEK talked to could not outline changes going on right now in sales strategy and tactics. The methods adopted are affecting just about every phase of distribution.

• **Economics**—There were scads of nuts-and bolts savings devices, of course—like the Houston company that changed from air-conditioned Oldsmobiles to Chevrolets, Fords, and Ramblers for its salesmen. A factory representative for a Chicago TV manufacturer simply suggested to a distributor that he lay

off his janitor and let the warehouseman sweep up. The \$300 monthly savings in pay just equaled the profits on the TV line.

A good many companies say they are finding the current downturn an ideal time to realign their field forces. Primary aim is to concentrate selling efforts so that, in effect, more salesmen are calling on fewer accounts or handling smaller territories.

• **Realigning Sales Forces**—A few plan to combine or close some district offices. But most are going the other way. Westinghouse Electric Corp., for instance, is shifting 20 of its 30 salesmen from central apparatus sales headquarters in Los Angeles to four satellite offices. These are strategically located within easy access of the freeways. The idea is to give the salesmen more time with the customer—and the company figures this decentralization will let every salesman make at least two more calls a day, now that travel time from the central office is eliminated. At the same time, the West Coast office is boosting its total sales staff 30%, but figures the new setup will bring costs per sales down.

On a bigger scale, Union Oil Co. has split its four large domestic territories into 11 divisions, each with a local manager. In Pittsburgh, two major manufacturers of both industrial and consumer goods are adding salesmen and carving a host of new residential offices all across the country.

A Toledo executive explained: "This is a good time to shift as much money as possible into capital improvements in our branches, instead of paying it out in taxes." Consequently, his company is building completely new branch offices and adding regional headquarters in Atlanta, Dallas, and Los Angeles. Obviously, such programs don't exactly reduce costs. The object is to get better penetration of markets.

• **Advertising Changes**—A lot of companies, too, are reevaluating their advertising and promotion plans. Institutional ads, say some of them, are being cut to provide more funds for campaigns in industry magazines and publications. Hardest hit are trade

shows and association activities, according to the companies checked by BUSINESS WEEK. One or two men are being sent to a convention, compared with four or five previously.

A lot of this money apparently is going into direct aids for selling. A Detroit consultant reports a "great rush" to update technical manuals and catalogues.

In addition, direct mail campaigns are blossoming all over the place. The Harnischfeger Corp. sells through distributors and now has come up with a new \$250,000 direct mail program for this year directed entirely at its distributors' prospects.

A big boost in advertising and promotion also was reported by a Toledo company beset by a drop in housing starts and an increase in imports. It's adding 10% to its ad budget—including a national television show; increasing dealer and distributor aids; and tacking on another 10% for promotion.

• **Personnel Shifts**—Companies also are using the return to tougher selling as an opportunity to weed out ineffective personnel. One company now requires salesmen to take a stiff personnel test twice a year. Others have cut office forces sharply. But, more basically, a lot of companies are undergoing major shakeups in administrative setups.

In Houston, a company president has taken over more of the administrative detail from his three vice-presidents to give them more time to sell. "It's cheaper," he says, "for just one of us to worry."

The Kelvinator Div. of American Motors Corp. in Detroit has hit at its distribution costs by consolidating zone office accounting on a regional basis. "A year ago," says Homer Travis, sales vice-president, "we had five men in the field for every six behind them; now the proportion is five to four."

II. Modernized Distribution

Even more significant changes were turned up in the survey:

• A big San Francisco company has pulled all distribution functions—transportation, billing, stocking of warehouses, and others—under the control of a single division.

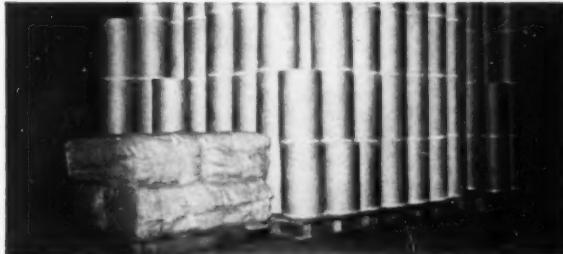
• In Cleveland, an electric motor manufacturer is in the process of what it calls "roofification"—putting its multiple line of products under one sales roof to avoid having three different salesmen call on the same customer on the same day.

• Effective this month, General Electric Co.'s Appliance Park in Louisville will have a Sales & Distribution

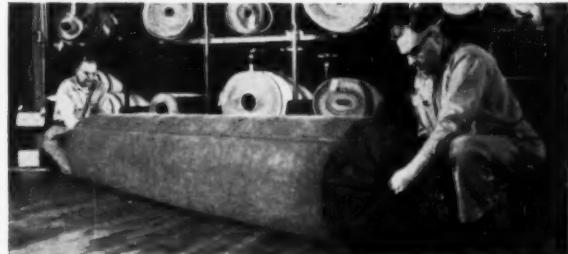
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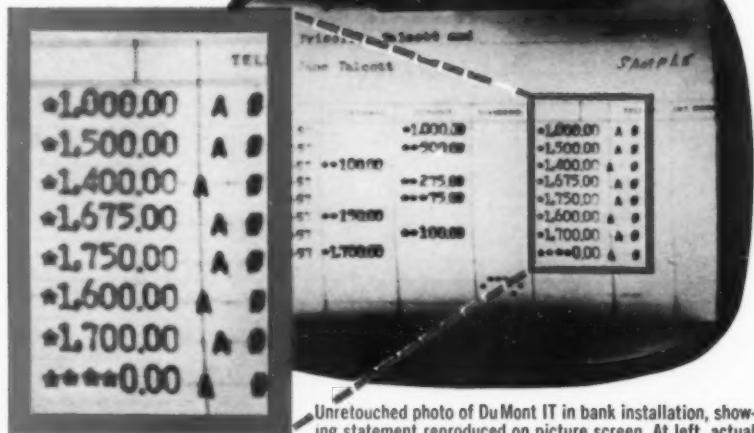
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Unretouched photo of DuMont IT in bank installation, showing statement reproduced on picture screen. At left, actual size of figures on 8" screen.



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Dept., reorganizing all company-owned distribution of major appliances into one unit (BW-Dec. 14 '57, p130). The idea is to "speed communications between manufacturer and retailer." Managers of the new sales-distribution districts of the new department will be responsible for franchising retail outlets, market developments, local advertising, field warehousing—the whole marketing package.

The drive for lower costs also has put pressure on companies to come up with (1) improved methods of physical distribution and (2) better materials handling, both in the warehouse and factory and in the office. The appliance industry, in particular, is reshaping its distribution methods. Chiefly it follows the pattern of establishing factory-owned depots in strategic points and then shipping direct to the dealer in mixed carload lots.

- **Cost Cutting**—Hotpoint, a GE appliance division, has just set up a department called Distribution Development & Planning, charged specifically with cutting costs. Among other things, it is setting out to find (1) the optimum size and best locations for distribution districts; (2) the most economic channels; (3) the number, size, and type of dealer necessary to reach quotas—some of its people think 9,000 dealers are enough, against the 11,000 it carries now and the 14,000 it had a year ago.

- **Other Changes**—Among the many other ways being tried to increase sales effectiveness, BUSINESS WEEK reporters frequently ran across these:

- **Sales training**—Many companies are training their salesmen to train distributor and dealer salesmen. Others are encouraging salesmen to attend night school in business administration and marketing.

- **Compensation**—A Boston company is now offering each of its branch office managers 20% of the profits of his office. In Los Angeles, one company is now calling its salesmen "marketing men"—and each gets a detailed data sheet of his performance based on the cost of sales for the months and the year to date. Commissions start at a point above the breakeven level—but then are more generous.

- **Paper work**—In Pittsburgh, four out of five companies reported they either had installed electronic computing systems or were about to. This fits into a trend that showed up across the country. International Shoe Co. in St. Louis, for example, has undergone a major realignment of its distribution, based partly on the availability of an IBM 705 program. It has consolidated all its non-sales functions in St. Louis, and now has established regional distribution for its general line of shoes. It can now carry its basic shoe patterns on a never-out-of-stock basis. **END**

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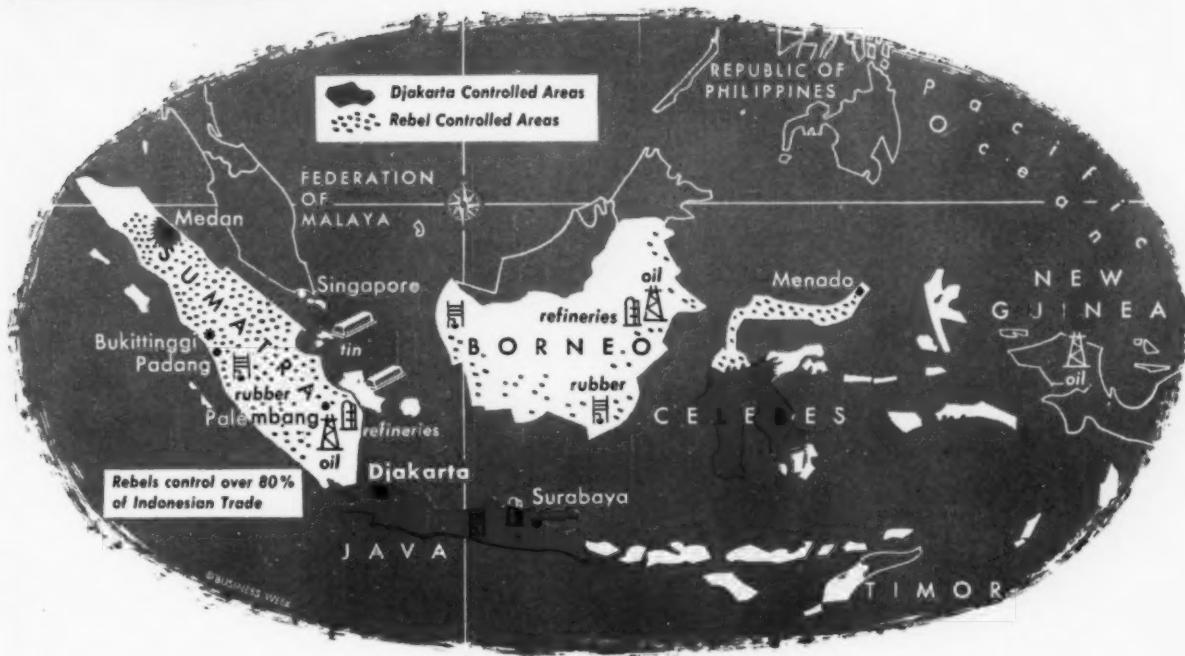
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INDONESIA: PART I

Civil War Comes Nearer in the Indies

Anti-Communist rebels set up their own government in Sumatra and open economic boycott against Pres. Soekarno. Question is how far they will—and can—go in revolt.

Indonesia's long-simmering conflict between the central government on Java and rebel groups on the outer islands boiled over this week. Civil war threatens the entire country.

Last weekend, rebel leaders gathered at Padang on Sumatra (map) and formed a "provisional" government in defiance of the legal government in Djakarta on Java. They also began staging an economic boycott against Java.

With these bold moves, the rebels hope to force the central government in Djakarta to:

- Get rid of powerful Communist elements that now work closely with Pres. Soekarno.
- Force Soekarno to replace premier Djunda, his leftist stooge, with Mohammed Hatta, a Moslem moderate who opposes Soekarno's Communist-inspired policy of "guided democracy."

- Give the outer islands—Sumatra, Borneo, and Celebes—a fairer share of the revenue they earn for Indonesia by producing oil, rubber, and tin.

- **Military Weakness**—Both sides, particularly the rebels, have very limited military strength. If the Soviet Union,

already wooing the Soekarno government, begins feeding arms to Djakarta, the conflict could burst into a full-fledged civil war like that in Spain in the 1930s. So far, though, it is chiefly a battle of words. There's still plenty of room for either a compromise or a long stalemate.

In any case, the rebels' defiance of Djakarta is splitting Indonesian politicians and military commanders into two camps. Soekarno and other leaders can no longer pretend to take a middle position in the conflict. Spurred by the Communists, the struggle could also spread outside Indonesia's borders. That could turn Southeast Asia into the No. 1 trouble spot in the cold war.

For the moment, Washington is on the fence. It apparently discounts the possibility of open warfare—and the rebel camp's ability to fight Djakarta openly and effectively.

I. Assets for a Showdown

The rebels had challenged Djakarta at a distance for more than a year before they finally took action last week.

While Soekarno was visiting Japan, they issued a five-day ultimatum, demanding an end to the central government's policy of "guided democracy." Premier Djunda answered the ultimatum by discharging four rebel colonels from the army. Then the rebels on Sumatra followed up their ultimatum by forming a "provisional" government, headed by Sjafruddin Prawiranegara (picture, page 120), ex-governor of the Bank of Indonesia and former premier during the postwar battle against the Dutch.

Soekarno rushed home from Japan. His government immediately took a tough line, ordered the arrest of six members of the rebel government and two more army colonels.

- **Balancing Forces**—In the upcoming struggle, Djakarta holds some good cards—but by no means the best. It has the advantages of legality and of an army bigger and better equipped than the rebel forces. It also has the support of the well-organized, rich Communist Party.

- But, Sumatra has economic weapons on its side. The outer islands produce more than 80% of the country's foreign exchange earnings. All of Indonesia's oil output—about 113-million bbl. last year—comes from the outer islands. In normal times, roughly 25% of this oil production goes for internal consumption, mostly on Java. Already the rebel government has begun stop-

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SJAFRUDDIN, rebel premier, is highly regarded in West as financier and leader.

ping oil shipments from Sumatra to Java.

The Sumatra state bank has an estimated \$150-million in cash reserves. But the Djakarta government is scraping the bottom of the barrel—with most of its meager \$175-million worth of gold and foreign exchange reserves deposited abroad as collateral on current shipments. Besides, the central government has circulated banknotes totaling more than \$1.2-billion, with the printing presses grinding out still more this week to add to the inflation on Java.

II. Close-Up of Anarchy

You can get a close view of the political and economic chaos in Indonesia from an on-the-spot report by a BUSINESS WEEK correspondent:

There's hardly any central power over Indonesia's affairs these days. This breakdown of control stems partly from Djakarta's long refusal to give the outer islands what was due them. It also stems from the central government's inability to administer the country's vast, complicated system of exchange regulations.

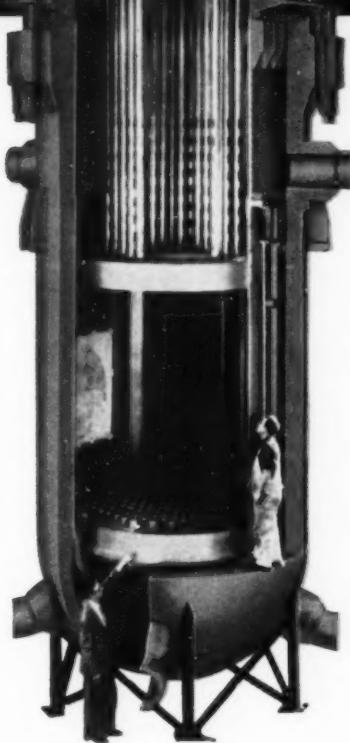
• **Rival Group**—Outside Java, the real control has been seized by local military commanders. These young men are often ill-equipped to run a military establishment. But they use Djakarta's inability to feed troops and to meet day-to-day needs in the outer islands as an excuse to take power locally.

The rebel leaders—most of them reared in Indonesian nationalism—don't want to build a separate Sumatran state. Instead, they are setting up an all-Indonesian government at Bukittinggi, near Padang—as a rival to the Djakarta government.

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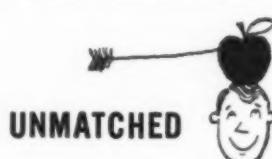
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are doubtful. The rebel groups tend to differ almost as much with each other as with Djakarta. For example, Padang is militantly Moslem, but northern Celebes is Christian, and consequently skeptical of Padang's concept of Indonesia as an Islamic republic. There's also the possibility of a clash between civilian politicians and the young military men.

• Separatism—If Washington should back the rebels, that in itself wouldn't solve the country's troubles. For instance, Czech Prime Minister Siroky—on a recent visit to Djakarta—has already accused the U.S. of sponsoring separatism, and Indonesia's Communists effectively picked up this line.

However, the alternative seems to be to wait while the Communists continue to grow stronger on Java and to infiltrate the outer islands. That could mean a Communist sweep in the next elections in 1960.

• Man on White Horse—Indonesia's most potent political force still is Pres. Soekarno. He is apparently what the country can't live with—or without. No other figure on the scene or in the ascendancy symbolizes Indonesian national aspirations as he does.

Soekarno once said that a leader's duty is to ride a white horse. He said the important thing is to keep in the saddle and not to worry about where the horse is going. He has proved this principle—or lack of principle—many times.

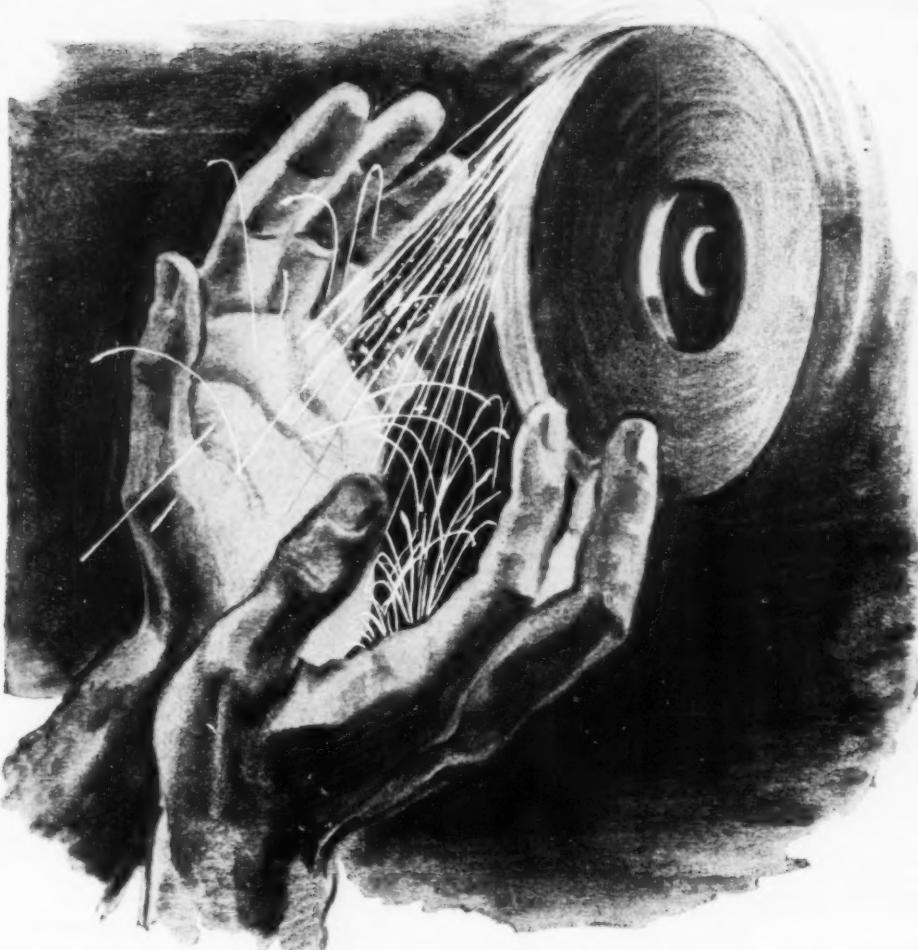
He has never been content to be a "constitutional president"—a figurehead like the president of France. He has intrigued with the army, formed his own foreign policy without consulting the cabinet or parliament. Quite cynically, he made a rabble-rousing issue out of West New Guinea as an excuse to throw out Dutch businesses last December.

• Ruined Economy—The take-overs of Dutch holdings, carried out by Communist-led trade unionists, didn't break the Dutch. Instead, they broke Indonesia's economy.

KPM, the Dutch shipping line for the 3,000-island country, has all but shut down. Indonesia's Garuda Airlines is operating at 50% of normal—and rapidly getting worse. No exports are leaving Java. Only a trickle is coming from former Dutch plantations in northern Sumatra. Almost all contacts with Western markets have been ruptured.

Nevertheless, the central government is blueprinting a new deficit budget, based on increased revenue mostly from confiscated Dutch estates. Djakarta observers believe the government will end 1958 with at least a \$1-billion deficit—bigger than the total debt incurred since Indonesia won sovereignty eight years ago.

• Counting on Apathy—How does the



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country survive in this economic chaos? The answer seems to lie in the abysmally low level of subsistence of the great mass of people on Java, where 52-million of Indonesia's 82-million population live. Incredible as it seems, peasants in famine areas will stay in their villages and starve rather than move on to richer areas.

Leaders in Djakarta are banking on this apathy to carry them through the present crisis. But they may be overlooking two factors:

- Under the Japanese, the masses had no choice but to starve, so the wartime experience may not have been a precedent.

- For many years, political leaders have promised the people a better break—a promise the central government is not upholding today.

- **Driving to Brink**—The government's failure to face facts, plus its campaign of terror and intimidation, is what pushed Sjafruddin and his friends into action. This rebel pressure from Sumatra also aims at trying to halt Communist infiltration in eastern and central Java and other regions.

The Padang rebels, like all Indonesian politicians, are still mesmerized to some extent by Soekarno and his power. They are likely to move slowly. But they may have enough power for an economic blockade of Java. For instance, soap can't be made on Java without chemicals and copra from the outer islands. It's a question, though, whether the rebels will make all the moves necessary to boycott Java.

- **Danger in Split**—In terms of Indonesian history, the rebels would fear a full-scale split with Java. They remember how the Dutch used ethnic and religious differences to divide and rule. Thus, any Indonesian who can be accused of separatism today moves warily.

There is still strong sentiment among many non-Communists—notably the Socialists—that Java hasn't lost its battle with the rebels. The Socialists believe that any Sumatran government-in-exile will only be used by the Communists to "prove" separatist and anti-national tendencies among the non-Communists.

Communist strategy right now is to play the game in low key. While ostensibly supporting Djakarta, the Communists are blaming the government for all the present troubles when they are campaigning at the village ("kampong") level. They are consolidating their hold on the Javanese population. And in the outer islands, they have another factor on their side: At least 40% of army troops in south Sumatra and 35% in north Sumatra are Javanese, and they tend to think of the Communists as a Javanese party, rather than as revolutionists. END

The Christian Science Monitor

"Mr. Ackerman brings to Indian Lake Estates, just 18 miles southeast of Lake Wales, the vision of an idealist combined with the get-up-and-go of a practical builder. He is gradually building the community into a pattern that the eye can follow. It's fabulous even for Florida."

**New York World-Telegram
and the Sun**

"Private paradise in Florida . . . Indian Lake Estates, surrounded by many major attractions of the state. Evidence of the progress made to date is the beautifully landscaped entrance, with huge palm trees and tropical flowers lining the completed boulevards."

Orlando Sentinel

"Already millions have been spent at Indian Lake Estates, in the Ridge Section of South Central Florida, in grading and paving roads, landscaping, beach improvement, building an 1,100-foot pier, digging lagoons and shaping the community's two 18-hole golf courses and club house."



Actual Photograph: Indian Lake Estates' wide, white sand beach sloping gently into 15-square mile Lake We-oh-ya-Kapka. The 1,100-ft. private pier (longest fresh water pier in Florida), with modern mercury vapor lights, is shown in background.

Multi-Million Dollar Private Country Club Community in Florida

INDIAN LAKE Estates

In South Central Florida—18 Miles Southeast of Lake Wales



Club House for Indian Lake Estates—planned for completion this Spring. This spacious club house is adjacent to the 18-hole golf course (under construction)

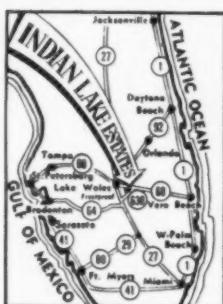
All purchasers must be approved by the Indian Lake Club. One-half acre residential sites, 100 ft. wide by 218 ft. deep with additional 70-ft. park-strip back of each lot, priced from \$2,750. Terms can be arranged.

Leon Ackerman

President of Indian Lake Estates, Inc.

WASHINGTON, D. C.
910—17th STREET, N.W.

Office at the Indian Lake Estates property at the intersection of Routes 60 and 630. Representatives on the property daily and Sunday until dark, or phone Lake Wales 3-0111.



Progress continues in this vast undertaking of creating Florida's first private city—Indian Lake Estates . . . the multi-million dollar private country club development providing the ultimate in facilities and recreational advantages. Every modern convenience will be provided, including central water and sewage systems; mercury vapor street lights; dual lane avenues paved and planted with majestic palm trees; a magnificent club house and 18-hole golf course (both in advanced stages of construction); a marina to accommodate 2,000 boats, almost completed; 1,100-foot private pier—longest fresh water pier in Florida—now completed.

Located on a 15-square mile, spring-fed lake midway between the Atlantic Ocean and the Gulf of Mexico . . . this beautiful property is high above sea level (a gradually rising elevation from 64 to 115 feet) and away from enervating humidity, with enjoyable year-round climate—delightfully dry. "A Florida development that is living up to its fanfare is Indian Lake Estates," says The Miami Herald.

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INDONESIA: PART II

U.S. Company Copes With New Handicaps



TAPPING rubber tree at Goodyear plantation in northern Sumatra calls for skill, to start flow of latex without injuring the tree.

In crisis-ridden Indonesia, "capitalism" is a dirty word, meaning either hated Dutch businesses or often resented Chinese storekeepers. So powerful is this feeling that not even the more level-headed Indonesians dare to act as apologists for foreign business interests.

Yet Goodyear Tire & Rubber Co.—one of several large U.S. companies living in this emotionally charged atmosphere—is trying to prove, with almost missionary zeal, that American-style initiative is a good thing for Indonesia.

• **Island Holdings**—At Bogor—near the capital city of Djakarta on Java—Goodyear runs a tire plant (below, right) that each day produces 1,400 auto and truck tires and 15,000 bicycle tires. Near Medan—almost 1,000 mi. westward on Sumatra (map, page 119)—the company operates two rubber plantations, Dolok Merangir (left and below, left) and Wingfoot, totaling 55,000 acres.

Goodyear's tire plant and plantations are worth around \$43-million at replacement cost. The biggest U.S. investments on the islands come from Caltex and Stanvac, the two oil companies. Stanvac alone has an \$80-million ex-

pansion program (though it has stopped exploration for lack of new concessions).

Goodyear's operations aren't the biggest, but they are vital to Indonesia's racked-and-ruined economy. The Bogor plant, with 1,578 employees, supplies the country with 60% of the tires it needs, saves the Djakarta government around \$20-million yearly for tire imports. The Sumatran plantations earn foreign exchange for Indonesia through sales to Goodyear in Akron—though the rebel government just organized in Sumatra is trying to prevent this income from reaching the central government on Java. In addition, by introducing rubber trees with higher yields and by developing new products, Goodyear is helping natural rubber—Indonesia's second-biggest earner of dollars and sterling—to meet competition from synthetics.

• **Contrasts**—The tire plant and plantations are wholly separate operations. They report directly to Akron, rarely contact each other.

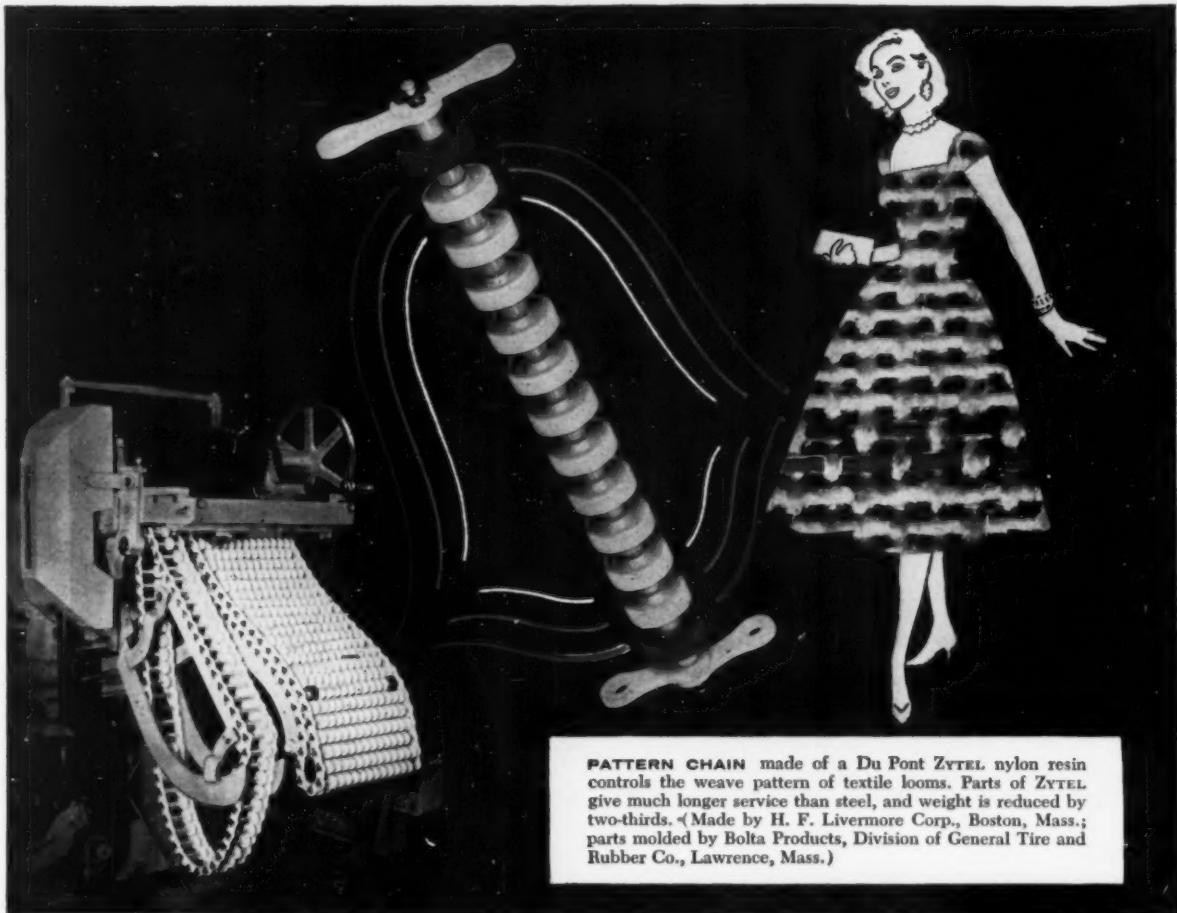
While the 29-man American staff on Sumatra begins work before 6 a.m. and takes a siesta in early afternoon to



MILLING starts with coagulated blocks of latex (foreground) and squeezes the water out, leaving spongy sheets, stacked at center.



TIRES are made at Goodyear's plant on Java (right), which turns out 1,400 auto and truck tires and 15,000 bicycle tires each day.



PATTERN CHAIN made of a Du Pont ZYTTEL nylon resin controls the weave pattern of textile looms. Parts of ZYTTEL give much longer service than steel, and weight is reduced by two-thirds. (Made by H. F. Livermore Corp., Boston, Mass.; parts molded by Bolta Products, Division of General Tire and Rubber Co., Lawrence, Mass.)

H. F. Livermore uses ZYT[®] nylon resin for a major advance in loom design

The use of ZYTTEL nylon resin to make HFL engineered pattern chains is so important that it has been called the first basic improvement in weaving since the invention of the automatic loom. And little wonder!

ZYTTEL effects a weight reduction of 66%. Friction on the chain components is so greatly reduced that no lubrication is required. This insures a clean, first-grade product and reduces maintenance of the machine. The color-

coding possible with ZYTTEL greatly simplifies the work of the weaver, and cuts training time of operators. Practically eliminated are skips and smashes in weaving and downtime due to pattern chain failure. Patterns are more easily set up, corrected, or changed.

Dimensional stability of all components of the chain is outstanding. The parts of ZYTTEL are extremely resistant to abrasion and wear. Less noise, improved product quality, increased pro-

duction are all achieved by the use of ZYTTEL in making this vital assembly. Less power is required to operate the loom.

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avoid the intense heat, the 16-man staff at Bogor has pleasanter conditions. Bogor is a mountain retreat, built 200 years ago by the Dutch. There you see the old governor-general's summer palace, with deer grazing on its lawn. Close by is the famed botanical garden, formerly used as a research center. The home of Clark E. Failing, the tire plant's manager, boasts new kitchen equipment and a swimming pool.

• **Tire Troubles**—Until recently, the tire plant's output was selling fast—often at black market prices (though the plant follows a fixed-price policy). Now the rebellion on Sumatra—which, among other things, has slowed traffic between Java and the outer islands—has upset the tire market. Sumatra, normally a buyer for 12% of Bogor's output, is getting foreign tires through barter trade with Singapore.

The Bogor plant is also in the dark about profit remittances. For several years, Djakarta has allowed Goodyear to remit 60% of its profit—and indirectly forced the remaining 40% to be plowed into plant improvements. Now it looks as if Bogor won't be able to send home any profits.

However, the plant is relatively free of labor trouble. Communists have caused occasional flareups. Skilled workers are hard to find. But the employees generally work well on a three-shift basis.

• **Plantation Pangs**—By contrast, the Sumatran plantations have been a headache since the end of World War II. "The Japanese ran the place well," says Henry E. Carroll, the 56-year-old manager. After the war, though, the Indonesians let the fast-growing "lalong" grass run wild. Every day there are problems: clearing the undergrowth, dealing with the Indonesian squatters, combating thefts, and—in the past year—stopping large-scale smuggling.

The biggest trouble is the employees—where to find enough, how to boost their productivity. The company brings most of the plantations' 10,000 employees from Java. It gives them food and housing at 30% of cost, pays them about \$35 a month (high in terms of Indonesian purchasing power), then sees them return home to Java after their three-year contract is up.

Last year, the Communist-run plantation union staged a bitter strike, chiefly for shorter working hours. At the moment, the army is clamping down on the union.

Goodyear is trying to improve output with labor-saving machinery. The company already is using tractors, instead of hand labor, to cut down old trees. But with Indonesia in turmoil, it's hard to tell how much to spend—or waste, as it may turn out—on new investments. **END**

Hube Henry Photo
Hedrich-Blessing



Skidmore, Owings and Merrill—Architects...Turner Construction Co.—Gen. Contractor

The Inland Steel Company's new headquarters in Chicago numbers some important firsts among its outstanding features. It is the first large office building to be built in Chicago's loop in 20 years. It is also Chicago's first stainless curtain wall building, and the first building anywhere to use the low-nickel stainless grades pioneered by Allegheny Ludlum.

Allegheny 200-series stainless steels (Types 201 and 202) are the answer to one of the knottiest problems that have faced architects and designers who want to use the superior durability, strength and beauty inherent in stainless steel. Now, with the 200-series it is possible to think in terms of stainless steel without fear of future shortages. That is always an important consideration, and especially so with mass-produced items.

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If these new steels sound interesting to you, let us supply printed information and engineering assistance. Write for a copy of *Technical Horizons No. TH2*, containing essential data on the properties and characteristics of Allegheny 200-series low nickel stainless steels.
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Bendix-built Talos Guided Missiles on the Navy's "U.S.S. Desert Ship" at White Sands Proving Ground—Official U.S. Navy Photo.

HOW THE MANY BENDIX MISSILE CAPABILITIES ARE IMPORTANT TO NATIONAL DEFENSE

Bendix* has been meeting and solving missile problems for many years. In addition to building the Talos, a U. S. Navy ground-to-air missile, we engineered and developed many of the major systems used in other key missiles. These include warheads, target-seekers, propulsion devices, controls, guidance and telemetering systems. Telemetering systems enable missiles to send back reports from space. More than 500 different channels of information can be transmitted, such as speed, direction, acceleration, roll, vibration, temperature, etc.

The Talos, for which Bendix is prime contractor, has, according to a Navy statement, "demonstrated a remarkably high degree of accuracy and reliability". As a result, the Navy is making direct shipboard installations on first-line cruisers

without the intervening step of evaluation. This has meant a considerable money saving and has advanced this missile as a fleet weapon. It will be the major armament of the United States cruiser *Galveston* and will also be installed on a number of other cruisers, including the nuclear-powered *Long Beach*.

Because of the accuracy and extreme range of the Talos, the U. S. Army is also studying the feasibility of incorporating it into the Continental Air Defense System.

In addition to missiles and missile components, Bendix manufactures important Ground Support systems and devices.

Looking to the future, Bendix is engaged in an intensive *long-range* program, designed to help keep America foremost in the development of weapons vital to the preservation of our security and world peace.

*TRADEMARK



Bendix furnishes major elements for missiles of all types. This illustration represents no particular missile, but shows the general location of various airborne Bendix systems and their components. In addition, Bendix produces the Ground Support systems indicated above.

A thousand products



a million ideas

In Business Abroad

Brazil Seeks \$100-Million Loan in U.S. To Tide Country Over Its Economic Crisis

Brazil is dickering with New York banks for a long-term \$100-million cash loan to help pull the country through its economic crisis (BW—Feb. 1 '58, p96).

To get the loan quickly, Brazil may have to post \$100-million in gold as collateral. It is reported that Brazil has \$323-million in gold deposited in the U.S. But \$200-million of this has been set aside as collateral on previous loans, so the new loan will leave a gold balance of only \$23-million that is not pledged as collateral.

Some bankers and economists in the U.S. point out that Brazil will need more than loans. It will have to straighten out its financial house, take some firm measures to fight inflation, and set up more realistic foreign exchange regulations.

Even in Rio, there's a feeling that the government will not be able to go on maintaining minimum coffee prices—lately these have exceeded world market prices, shutting off the normal export flow of Brazil's biggest dollar earner. And some Rio observers agree that less money should be spent for such dollar-eaters as Petrobras, the national oil company, which needs a sizable amount of hard currency to pay for its equipment imports.

The Kubitschek government will need plenty of political nerve to carry out a program involving such austerities. It's heading into elections—gubernatorial and congressional—later this year.

India Gets Ford Foundation Grant To Develop Small-Scale Industries

The Ford Foundation has earmarked \$2.2-million in grants to the Indian government—now hard-pressed financially—to step up the growth of small-scale industries.

The idea is to increase the output of consumer goods for both domestic use and export, create new jobs, and boost private enterprise in each of India's 14 states. The development of small industries was set up as a major feature of India's Second Five-Year Plan, which began in 1956.

The Ford grants are intended to provide technical, managerial, financial, and marketing advice for India's small producers.

Argentina Signs \$30.9-Million Order For Italian and Hungarian Rolling Stock

To bolster one of the weakest spots in its sagging economy, Argentina has signed a \$30.9-million order for delivery this year of 300 diesel coaches from Hungary's

Ganz Works of Budapest, and Fiat of Italy. Fiat's side of the order, 210 motor coaches, will be assembled in a new plant to be built near Cordoba; the Hungarian order, 90 narrow gauge coaches, will be imported.

In addition, Argentina intends to buy 280 diesel locomotives this year with the help of a \$85-million loan from the U.S. Export-Import Bank.

Besides the orders for rolling stock, the National Railways of Argentina has a 10-year program to replace 9,300 miles of track at the rate of 930 miles per year. This will cost the government about \$10-million annually.

Argentina's budget for 1958 calls for \$233-million for improvement of the run-down railways system.

U. N. Commission Breaks Ground

For a Latin American Common Market

A special committee of the U.N.'s Economic Commission for Latin America (ECLA), meeting in Santiago, Chile, has come up with some preliminary ground rules for the formation of a Latin American Common Market.

A full-scale customs union of Latin Americans is still a long way off. But to make such a common market effective, the committee decided that Latin American countries would have to:

- Devise effective measures to step up the growth rate of their per capita real income.
- Open the potential customs union to all the countries of Latin America.
- Establish eventually single customs tariffs toward such economic giants as the European Common Market.
- Work out a special system of multilateral payments.
- Give special treatment to undeveloped participants.

ECLA's next meeting is scheduled for Mexico City later this year.

Europe Sees Rise in Oil Output,

But Still Will Need More Imports

If Western Europe's own production of petroleum and natural gas continues to rise at the present rate, 20% of West European consumption can be met from domestic sources by 1975. This is the forecast made in a report just issued by the Oil Committee of the Organization for European Economic Cooperation. The OEEC study covers 17 member countries, plus Spain and Yugoslavia.

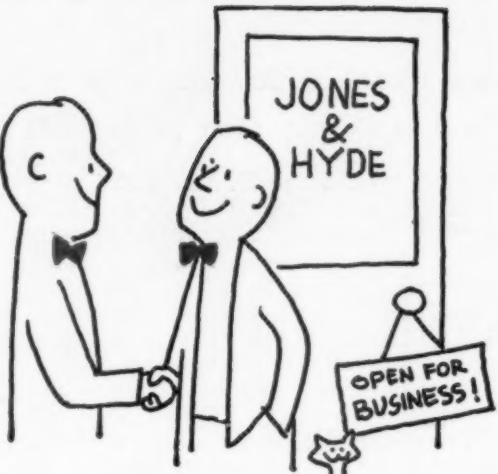
However, extensive areas on which the forecasts were based lie in largely unexplored regions from Yugoslavia to Turkey in Southeast Europe, as well as in the Iberian area of Southwest Europe. And on the most optimistic reckoning, West Europe for many years still will have to import increasingly large quantities of foreign oil.



1.

The money-making partnership of Johnson, Jones & Hyde

Went on the rocks one gloomy night when Mr. Johnson died.
Poor Widow Johnson's business sense? It wasn't even funny.
The firm had hoped to buy her out but lacked the needed money.



2.

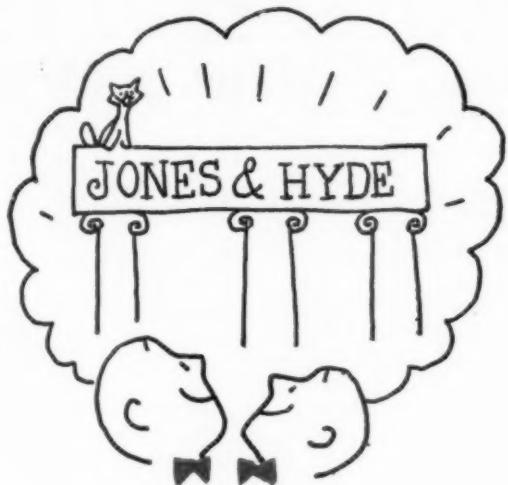
Soon bankrupt, plucky Jones and Hyde decided to start over.

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A partner's share, priced fair and square, if either party dies."



3.

"This way you're sure that amateurs won't wreck your balance sheet.
An heir gets cash—no strings attached—to live on easy street.
Just sign a buy-and-sell agreement," he went on with vim.
"Get your attorney's sound advice—I'll work along with him."



4.

"We'll buy," replied both Jones & Hyde. "It's high time we insure
So even if a partner goes our business stays secure."
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INTERNATIONAL OUTLOOK

BUSINESS WEEK
FEB. 22, 1958



The U.S. is about ready to help put the Algerian war into the lap of NATO. That's how far the Tunisian bombing incident (BW—Feb. 15 '58, p125) has pushed Washington from its former hands-off position.

The key problem is whether France will go along. Up to now Paris has insisted that its fight with the Algerian rebels is a purely French affair—even though Algeria, legally a part of France, comes within the NATO defense area. What's more, American advice has been fiercely resisted, although American military equipment has come in handy in Algeria.

Then, of course, there's the question of whether the Algerian nationalists are ready to come to terms. Both Tunisia and Morocco seem to think they are.

The French have moved a long way just in accepting the "good offices" of the U.S. and Britain in settling their row with Tunisian Premier Bourguiba. If Washington and London can pull off this settlement, there will be a precedent for outside mediation in the Algerian struggle.

Even now, with the two sides in Algeria refusing to budge, it is pretty clear that only outside pressure can bring the fighting to an end.

In fact, there are influential groups in Paris ready today to see Washington take the lead—and make decisions that no French government seems able to make. These groups feel that, as in Indo-China, the U.S. is bound to end up on the Algerian scene. So why not now?

—•—

Moscow uses a mixed bag of tricks in conducting its diplomacy. These days it is courting the U.S. and Western Europe for summit talks. At the same time, it is launching a political offensive in the Far East.

Here are some of the Communist moves in Asia:

- Peking has ordered the withdrawal of its forces from North Korea and is asking the U.N. command to do likewise in the South. The catch is that Red China's troops merely have to move across the Yalu into Manchuria.
- Moscow is threatening Japanese fishing rights off the Asian mainland—as a means of prodding Tokyo into signing a Soviet-Japanese peace treaty.
- Both Peking and Moscow are trying to tempt Tokyo with trade offers. Also, they are playing on Japanese industry's fear of (1) recession in the U.S. and (2) more U.S. trade barriers against Japanese goods.
- Indonesia's Communist Party is advocating "no quarter" for the opposition government that has established itself on Sumatra (page 119).

—•—

Egyptian Pres. Nasser is in the midst of a frontier row with Sudan, his big, sparsely populated Arab neighbor to the south.

Nasser is after a desert area that's supposed to contain rich manganese deposits. The catch is that the present boundary line, accepted up to now by Egypt, puts this area in the Sudan.

Nasser's squabble with his Arab neighbor has come just as he was talking up the Egyptian-Syrian union as a fine example of Arab unity (page 28). So the Egyptian dictator may be losing a little popular luster outside of Egypt and Syria.

INTERNATIONAL OUTLOOK (Continued)

BUSINESS WEEK

FEB. 22, 1958

In the Middle East, the British are trying to reestablish trade ties that were snapped at the time of their Suez adventure.

To promote trade with this area, the Macmillan government has set up an advisory council of businessmen. The new body will operate somewhat like the Dollar Export Board, which has done a lot to push British exports to the U. S. and Canada.

—•—

India seems to be over the hump in meeting the financial troubles that have arisen from its second Five-Year Plan.

By cutting the plan down to its "hard core" (in the main, four steel plants plus railroad construction), New Delhi also has reduced its foreign exchange gap. And now a good part of that is being covered with credits and deferred payment offers from the U. S., Japan, Canada, Britain, and France. This week, Bonn agreed to a \$150-million credit to cover West German shipments under the plan.

Meanwhile, New Delhi has begun encouraging joint industrial projects between Indian companies and foreign partners. The Indians would especially like to increase the American share in the private sector of their economy.

—•—

Argentina goes to the polls this weekend to elect a constitutional government. It's the first presidential election since the overthrow of ex-Dictator Juan Peron in September, 1955.

Peron's influence still carries weight. Candidates are openly bidding for the votes of his sympathizers. Peronista votes may make all the difference to Arturo Frondizi—an ultra-nationalist who seems to be out in front this week.

The economic climate for the election has been stormy. This week some 30,000 oil workers joined the month-old strike of 400,000 bank, construction, and textile workers. (They are demanding higher wages.)

—•—

The Commonwealth Economic Conference now is scheduled for Montreal next September, at the new Queen Elizabeth Hotel.

Canadian Prime Minister Diefenbaker, campaigning for reelection, has been pushing for some months to get Canada accepted as the conference site.

This week the Conservative leader said that the meeting would be designed "to extend trade among all Commonwealth countries and to regain for Canada the Commonwealth markets lost by the Liberals."

Ask Canadian officials if there's likely to be any resemblance between this session and the Ottawa Conference of 1932, and they'll return a flat no. But they do mention that the Ottawa system of imperial preferences came partly as a reaction to our Hawley Smoot Tariff of 1930.

Unless world trade is taking a nose dive by September, Britain's Conservative government won't be interested in the 1932 approach. It's more likely that London will try to get Ottawa interested in joining the British-sponsored Free Trade Area in Europe.

Last fall ex-Chancellor of the Exchequer Peter Thorneycroft tried this gambit with the Canadians—but failed. Still, it could be tried again at Montreal, especially if the U. S. is turning protectionist.

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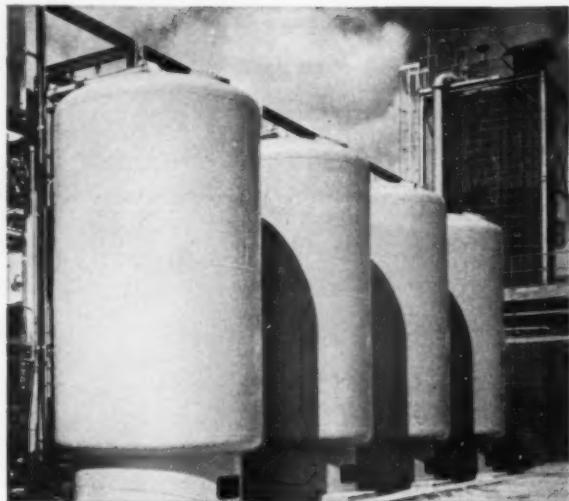
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- **Complete proposal** by Permutit engineers covers type, size and capacity of equipment, price, any special engineering services and guarantees.
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ping. Critical parts, ion exchange resins, control panels are all made in Permutit plants. (No other U. S. firm makes all these components.)

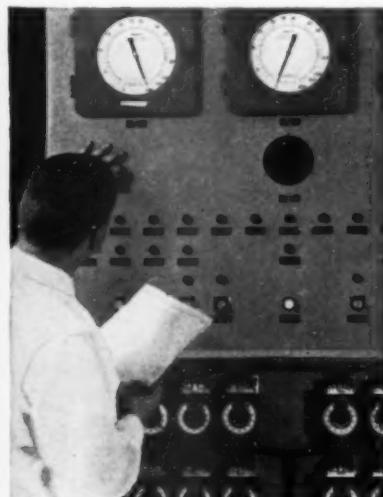
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In Washington

Transporting Nuclear Weapons Involves No Serious Risk to Public, U.S. Says

In an attempt to quiet fears at home and abroad, the government has issued official assurance that the chances of nuclear weapons accidentally exploding and harming the public are "so remote as to be negligible."

Newspaper reports recently have been focusing public attention on the fact that atomic bombs are being carried routinely aboard bombers.

In a joint statement, the Defense Dept. and the Atomic Energy Commission point out that nuclear weapons have—in the past 12 years—been transported about the U.S. in aircraft, ships, trucks, and trains.

"There have been few accidents in the handling and transportation of nuclear weapons," says the government. "And it is significant that not one of these accidents caused a nuclear explosion."

The agencies concede, however, that an accident—such as the crash of an aircraft or the wreck of a train carrying a nuclear weapon—could detonate the conventional explosives that often are a part of such weapons.

"An accidental detonation of conventional explosives might possibly cause local scattering of nuclear materials in the form of dust," adds the joint announcement. "This would not be a fallout of fissioned materials, but unfissioned nuclear material could be spread locally by wind or explosion."

In such an event, especially trained and equipped decontamination teams are prepared to go immediately to the scene.

GE Head Hits Military Pay Bill As "Penny-Wise, Pound-Foolish"

A House Armed Services subcommittee started hearings this week on an Administration bill to boost military pay by \$518-million and to revamp the military pay system to encourage recruitment and re-enlistment of technical personnel. The bill reflects in part recommendations made last year by the Pentagon's Advisory Committee on Professional & Technical Compensation, which proposed military pay be based primarily on skills rather than seniority of service.

But General Electric's Pres. Ralph J. Cordiner, who headed the Pentagon committee, said the Administration bill is a "penny-wise, pound-foolish...watering down" of his proposals.

Cordiner criticized the provision calling for a 6% across-the-board pay hike for all servicemen regardless of skill. "... If the government waters down the differential in pay between the really critical skills and those that are easy to learn, by means of an across-the-board increase, to that extent it will reduce the incen-

tive for a man to take up the difficult skills that are needed most."

Cordiner also was sharply critical of the Administration's intent to put through the new pay system over a four-year period. Said the GE president: "There's an opportunity to achieve a strong psychological impact through [rapid] introduction of these new incentive pay scales. To throw away this opportunity by creeping up slowly and grudgingly... would be a serious mistake."

Strauss Gets Atomic Power Hearings

Off to a Controversial Start

Adm. Lewis Strauss went before the Joint Congressional Committee on Atomic Energy this week to make his annual defense of the Administration's proposition that private industry can and will develop economic nuclear electric power when it's needed.

Strauss, chairman of the Atomic Energy Commission, and Chmn. Carl Durham (D-N.C.), of the Congressional group, had an advance understanding that the hottest issue—public vs. private atomic power—would not be raised until the end of the yearly hearings.

But Strauss shattered it quickly, by announcing that Pacific Gas & Electric Co. has contracted to complete by 1962 a 50,000-kw. atomic power plant at Eureka, Calif., without any federal financial help—not even a research and development subsidy. This, Strauss asserted proudly, supports his (and the Administration's view) that the government should concentrate on atomic power research and development, leaving construction and operation of reactors to the private power industry.

White House Begins Uphill Fight

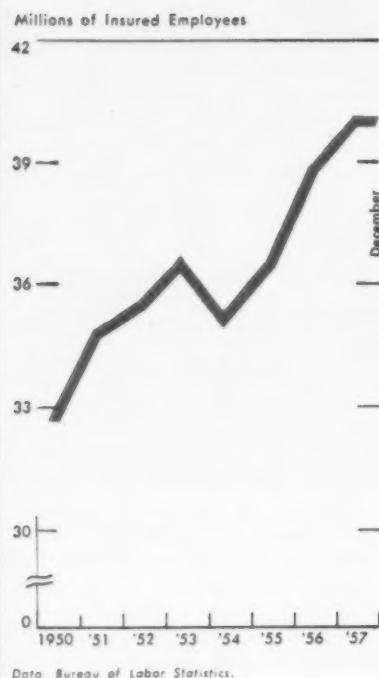
For Its Foreign Trade Program

Led by six Cabinet officers, the Administration's top officials this week went to bat for the White House foreign trade program at the House Ways & Means Committee's hearings on the proposed five-year extension of the basic Reciprocal Trade Agreements Act. The Administration sees a long fight ahead.

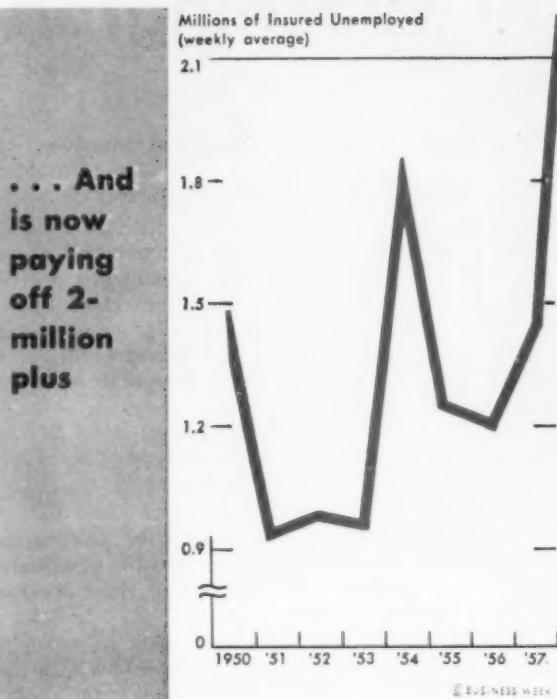
Commerce Secy. Sinclair Weeks, the lead-off witness, had been on the stand only a few minutes when protectionist-minded congressmen served notice of their intention to amend the law to give domestic producers more relief from the competition of foreign imports. Their questions gave a good indication of the opposition the trade program faces, and support predictions that the Administration will be pressed to make further compromises if the extension bill is finally to be passed.

Weeks admitted to willingness to compromise. He assured Rep. Richard Simpson (R-Pa.) that the Administration has an open mind on protectionist amendments. He indicated he would go along with selective quota limits on distressed commodities such as certain metals and minerals, and said tariff reductions would be negotiated only on items that still have high duties.

Unemployment compensation covers 40-million...



Data: Bureau of Labor Statistics.



BUSINESS WEEK

Big Test for Jobless Benefits

The nation's potent insurance policy against recession—payment of weekly benefits to the unemployed—is running into its most critical test.

The number of insured unemployed rose sharply during 1957 (chart) and has taken another jump in the first two months of this year. The January totals show more than 2.85-million jobless receiving benefits at an estimated cost of \$280-million. The early figures for this month raise the beneficiaries to 2.9-million.

• **More to Come**—Both figures are expected to go higher. Already they're close to topping previous highs reached during the recessions of 1945-46 and 1953-54. It won't take much to put the system under a strain that could mean some serious overhauling.

Even without a further major advance in unemployment, the insurance system will pay out a hefty \$1.5-billion in the first six months of this year. This—the prediction of Robert K. Goodwin, the chief of the Bureau of Employment Security—is at the rate of about \$250-million a month.

The trouble isn't that this is a drain on unemployment funds. To the contrary, the reserves at \$8.6-billion are a million dollars higher than a year ago. What bothers Goodwin is that the payments won't be nearly sufficient if there is extended unemployment.

• **Plateau**—The big test will come in

the next six weeks. This period is expected to show a high plateau of unemployment. If, after this, the jobless total doesn't begin to show a normal decline some changes may be made.

Some plans are already in the works, but these are the two key points to watch:

- In Congress, a bill jointly sponsored by Sen. John Kennedy and Rep. Eugene McCarthy would set federal minimums on both weekly payments and duration of benefits. The \$30 weekly average now being paid would be raised to not less than 50% of a worker's weekly wages; the 26-week average duration in the states would be increased to a maximum of 39 weeks. Qualifications for collecting payments would be eased.

- In the Eisenhower Administration, officials are still backing the position that the states should make their own revisions to levels not far from those set by the Kennedy-McCarthy bill. However, if unemployment continues to climb to more serious proportions, these officials may take another approach.

Likeliest tact would be federal subsidies to raise the state unemployment levels. Under the Kennedy-McCarthy plan the federal government would help out those states with low reserves until mid-1959.

In an emergency, the Administra-

tion's appeal to the states could not be effective. It would take about three years for state legislatures to complete a raise in payments and duration; many states are hostile to legislation that would require a special session.

- **Jump of the Cat**—If unemployment does begin to drop after six weeks, nothing is likely to happen, either in Congress or the Administration, on unemployment compensation. If there is an extended recession it will be another matter.

The anticipated slowdown in the rise of unemployment—the total had climbed 1.1-million in January to 4.5-million—showed up in the early February compensation figures. The increase continued, but there were only 15,000 new unemployed and an advance of 45,000 in the total receiving continuing benefits.

But, even with this slackened rate, the February unemployment level should rise above 5-million and the percentage of jobless to about 6% of the work force. The unemployment insurance figure for February—7.1% of those covered by the system—usually runs about 1% higher than the over-all unemployment figure.

The cost to employers of the present system is well under the maximum tax rate of 2.7% on a worker's wages up to \$3,000. In only one state, Rhode Island, and in Alaska are employers pay-



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ing the full tax; the average for the 48 states is 1.3%.

• **Varying Level**—The costs of unemployment compensation, paid fully by employers, are diminished by an employer's layoff level—the lower the level the lower his rate. Where layoffs are heavier, such as in Washington and Michigan, the rates are higher—2.3% and 2% respectively. But Iowa has a .5% level and Texas .7%.

The financial reserves got a boost several years ago when the system was extended to cover employers with four or more workers. All those coming under the program were required to pay the 2.7% tax for a full year.

The drain on jobless reserves hasn't yet caused any states to come to the federal government for help, though this is provided for. However, some states, such as Pennsylvania, Delaware, and Oregon, have low reserves, though none is as low as Alaska.

Since 1953, 45 states have boosted their benefits, but they still vary widely from Alaska's basic maximum of \$45 a week to the \$26 limit paid in Arkansas and North Dakota. Wyoming's maximum is \$41 weekly, New York \$36, and Michigan \$30. The national average of \$30 is far less than the 50% of pay pushed by the Administration, since the average weekly wage of the covered workers is \$82.

• **Exhaustion Point**—In the next few months, if the high unemployment rate continues, the number of workers who exhaust their benefits is expected to show a sharp jump. So far, unemployment hasn't continued long enough to bring totals to more than about 100,000 workers a month who run out of benefits.

This is where long-term unemployment really hits. With an average of 26 weeks of benefits, if high jobless rates continue for more than six months, workers are forced to rely on their own savings, help from relatives and friends, and federal and state relief programs.

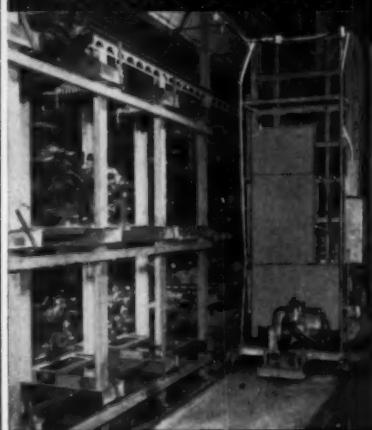
The unions are already planning to build up steam behind the Kennedy-McCarthy proposals. The AFL-CIO has issued a call to its affiliates for a national unemployment conference in Washington on March 11 through 13. "We feel the situation is more serious than the Administration seems to look at it," says AFL-CIO Pres. George Meany.

"We'd be in for a lot of trouble now if we didn't have this system," says Unemployment Compensation Chief Goodwin. So far it has worked—as an automatic boost to a sagging economy, without any needles from Congress or the Administration.

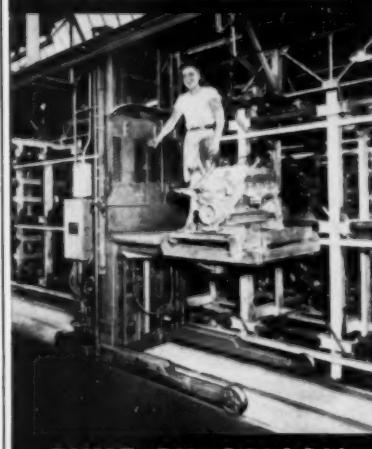
But, if the job picture gets much worse, it may take some non-automatic prodding. **END**

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TOKEN PICKET LINE watches Kohler Co. workers file out of one of plant's main gates. Picketing, once violent, is now only gesture.

War at Kohler Is Quiet Now, But

After nearly four years, the Kohler strike resembles the international cold war. Everyone is conscious of the tension, no one will hazard a guess as to when it may be settled, and all fear that it may erupt at any moment.

It's business as usual in Sheboygan, Wis., a seemingly peaceful city of 43,000 located 55 miles north of Milwaukee along the Lake Michigan shoreline. A casual visitor would never guess at the strife that racked it during the early months of the United Auto Workers strike, which began in April, 1954.

• **Leery of Hearings**—The residents of Sheboygan and of suburban Kohler rarely discuss the strike now, at least in public. In the shops, taverns, and coffee houses, talk is of space satellites, the weather, and the Milwaukee Braves' chances of repeating as world cham-

pions. The townspeople are well aware of the impending McClellan committee hearings, but speak of them grudgingly, fearful that they will give the city more notoriety. Nobody expects the hearings to settle anything.

"They're already fighting among themselves," a druggist points out, referring to the committee. "The Republicans will line up behind the company and the Democrats behind the UAW and that'll be all there is to it, except more bad publicity for our town."

• **Subtle Pressures**—There has been almost no sign of strike-connected violence in the Sheboygan area in the last two years, but the dispute continues to manifest itself in more subtle ways.

A barmaid confides that a Nebraska family that recently moved to Sheboygan was "frozen" out of her neighbor-

hood when the man took a job at Kohler.

"Nobody brought any pressure on them," she smiles, "but nobody made friends with them, either. We just ignored them, and after a few months they moved away."

A waitress in her early 60s, whose husband stayed on at Kohler, says, "We didn't have any rough stuff. I guess most folks knew Pa was near retirement. The other girls at work made some remarks to me, but I just let them go over my head. Nobody talks about it anymore. It was different for my son-in-law. They put some pressure on him, until he finally told them he had three mouths to feed and intended to stay on. Then they left him alone."

• **At the Plant Gate**—A picket captain in his late 50s stood with three other strikers near one of the Kohler plant's



COMPANY Pres. Herbert V. Kohler (left) and Management Committee Chmn. Lyman C. Conger (right) contend that a union boycott is "flat on its back," and that the four-year-old strike "hasn't cost us as much as it has cost the union."



UNION spokesman Bob Treuer (left), UAW representative, uses pins on map to keep tab on boycott of Kohler products, argues pinch is hurting company; but local officer John Steiber (right) says long strike "has been a waste for both sides."

Still Bitter

main gates and watched the day shift file out at mid-afternoon.

"Here comes a guy—the one in the black jacket—he came out swinging a club during the early days of the strike," said the picket captain. The worker strode briskly by in the zero weather, looking neither left nor right.

"That fellow with the lunch pail, I worked with him in the foundry for 23 years before the strike," said the captain. His former friend passed within 10 feet but gave no sign of recognition. "I don't hold any grudges against them," the striker continued. "If this thing ever is settled, I'll be back working right alongside them again."

A few of the workers nodded or smiled at the four strikers doing picket duty, but for the most part they pretended the token force wasn't there. When the last of the workers straggled



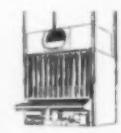
IN LOCAL HEADQUARTERS, some of the strikers still getting union aid (so far, \$10-million has been paid out altogether) help carry on an anti-Kohler mail war.



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out, the strikers wearily climbed back into the shelter of their old Chevrolet, parked about 100 feet from the gate.

• **Nobody's Gain**—An official of the striking Local 833—John Steiber, financial secretary—expressed the unspoken thoughts of many in Sheboygan.

"The strike has been a waste for both sides; neither one has proved anything." A production worker until 1935 when he became active in union work, Steiber feels the strike won't be solved until Herbert V. Kohler, 66-year-old president, steps out of the company.

The widely publicized stories of broken families and of lifetime friendships torn by the strike are supported in conversations with both strikers and non-strikers. But after four years, even such unnatural relationships have become accepted as a way of life.

• **Propaganda War**—The apparent apathy to the strike and its effects doesn't mean the citizenry isn't ready for a settlement. Rather, they take the position that a stalemate is only logical, when two immovables come into conflict.

In fact, the immovables—the company and the international union—seem to be the only parties with an appetite for continuing the strike. Since the violence has long ago subsided, the conflict continues mainly on a propaganda level.

The company position is expressed in speeches by Pres. Kohler and attorney Lyman C. Conger, chairman of the company's management committee.

The union has a 15-minute radio show nightly in the Sheboygan area when it can scrape up enough Kohler material to talk about; when it can't, Guy Nunn's national UAW broadcast is substituted.

• **Aid for the Idle**—Both sides make voluminous mailings, the union more than the company partly because it still supports 250 idle Kohler strikers who have little else to do.

The union says as many as 2,300 were on assistance rolls during the early days and accounted for "most" of the \$9.77-million spent in behalf of Kohler strikers through Dec. 31, 1957. The 250 still idle are for the most part too old to find other employment; the union charges some of them haven't been reemployed because they suffer from silicosis contracted in the company's foundry. The silicosis claim has been elaborately documented by the striking local, under the direction of international representatives, and may figure in the McClellan hearings.

The union won't say what its payments to these 250 idle run to, but a hotel employee whose 63-year-old father is among them says his father takes one turn a week on strike duty and receives \$25 per week from the

union, with which he must support himself and his wife.

• **Disputed Facts**—Even the facts and figures of the strike are in dispute. For every claim the union makes, the company makes a counterclaim, and vice versa. For every assertion, there is a denial by the other side.

The union says its boycott cost Kohler 80 distributors last year—that Kohler lost 160 while picking up 80. Conger says Kohler lost no distributors.

The union says Kohler employed 3,413 production and maintenance workers before the strike, and that they worked between 48 and 52 hours per week. It says Kohler today employs only 1,900 workers who work 40-hour weeks except for two departments, which work 45-hour weeks. The union says 3,000 have been hired since the strike, and that only 900 remain of the strike replacements, indicating a tremendous turnover.

Conger, who acts as spokesman for Kohler when dealing with the press, says the company will not release employment figures because the union would only distort them. But he points out that while the company admittedly has a smaller work force now, Kohler had a defense contract at the time the strike started, and some layoffs were inevitable when it ran out. Moreover, he maintains, improved technology also would have meant cuts in the labor force over the past four years even under "normal" conditions.

The union says its boycott of Kohler plumbing ware is going strong; the company says "the boycott is flat on its back." Another factor, the downturn in construction over the last year may have cut into Kohler sales.

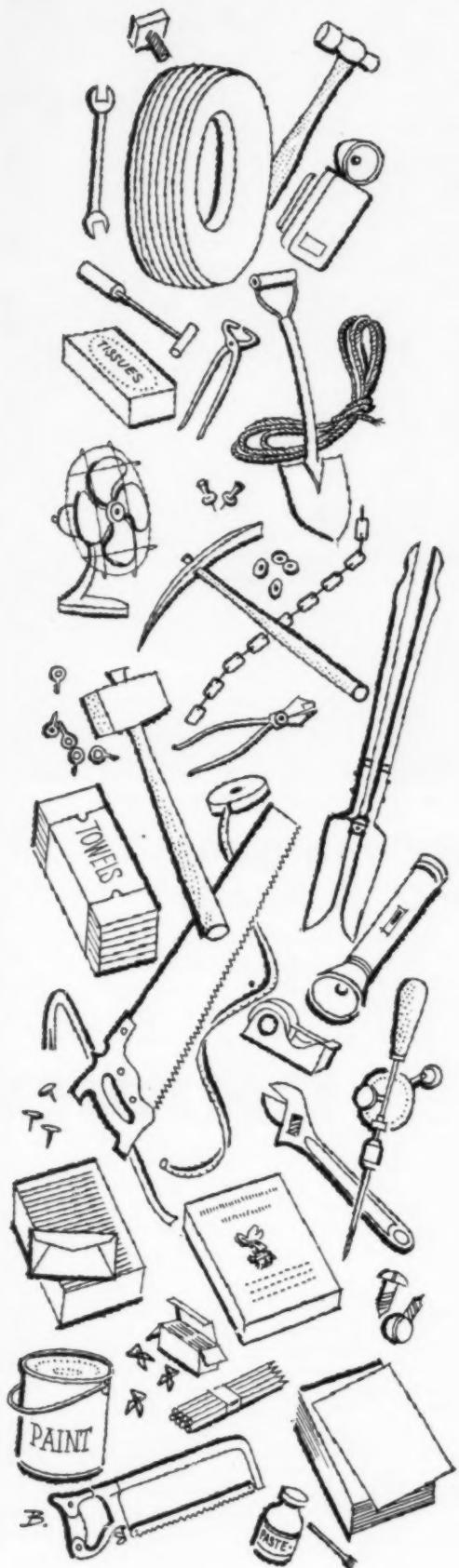
The company says reports of violence have not been overpainted, but that reports of bitterness among the townsfolk have. The union says it is the other way around. Charge and counter-charge.

• **What It Costs**—The company will not say what the strike has cost it in terms of cash, sales, production, human relations, personal fatigue, or any other measure. It will say only that the strike "hasn't cost us as much as it has cost the union." Conger says Kohler has got some business it never would have received if there had been no strike, and lost some business among those who were pressured. "But we're in the black and they're in the red," he says gleefully.

• **Impasse**—In the end, there are just two things company and union do agree upon:

(1) Neither side has any idea how many of the workers originally idled would return to the Kohler plant if a settlement could be reached.

(2) Neither side has any intention of giving in to the other. **END**



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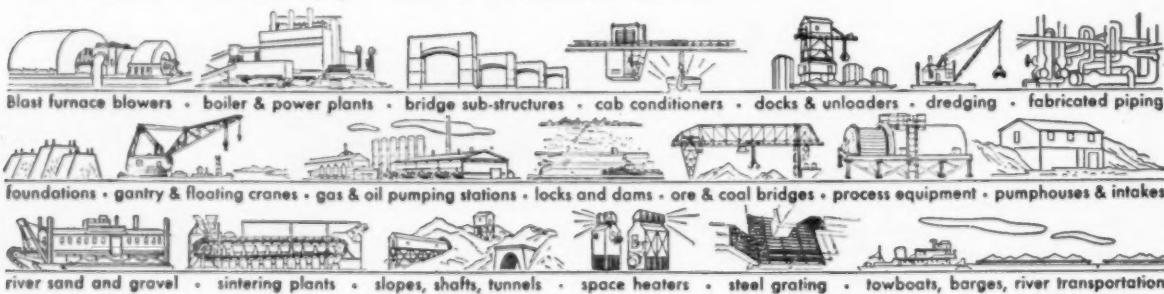
To increase efficiency of blast furnace operations by better utilization of iron ore fines, United States Steel Corporation is building two giant sintering plants—one at Gary Steel Works, Gary, Indiana; the other at Saxonburg, Pa., north of Pittsburgh, to be operated by Edgar Thomson Works.

As exclusive U.S. licensee of the Lurgi Company (Europe's foremost producer of such equipment) Dravo is handling design—and fabrication and erection of mechanical equip-

ment—for both installations. Each includes three sintering machines and three coolers. American Bridge Division of U.S. Steel is handling fabrication and erection of the buildings.

The U.S. Steel and other sintering projects currently under contract at Dravo underscore the growing importance of this process to the steel industry. For information on products and services listed below, write DRAVO CORPORATION, PITTSBURGH 25, PA.

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In Labor

Maritime Unions Join to Wipe Out Big-Time Gambling by Liner Crews

Maritime unions are uniting in a campaign to wipe out "big-time gambling" among crewmen on liners operating in the Pacific. Professional gamblers have "infiltrated" many crews by signing on as seamen. As much as \$50,000 a month may change hands in the games they run on a single liner.

Ed Turner, a vice-president of the Seafarers' International Union and secretary-treasurer of the Marine Cooks & Stewards, said recently that the pros "take aboard a regular bankroll and set up business."

Shipboard gambling by crewmen isn't new, but there is reason to believe it is increasing. As in the case of in-plant gambling in industry, it interferes with work.

Ships' officers have tried to crack down on big-time gambling in crews' quarters—but cautiously and so far ineffectively. They've been afraid of any order that might hit at "friendly" card games and lead to labor troubles. And they have been wary of possible flarebacks against the passengers' mileage pools, bingo games, dice, horse races, and other shipboard pastimes:

Now the maritime unions are moving in, as the United Auto Workers and other unions did to combat in-plant gamblers (BW—Aug. 21 '48, p92).

Charges of Bribing a Highways Official Put Carpenters in Line for Senate Probe

Maurice A. Hutcheson, president of the powerful 750,000-member Carpenters Union, and two top aides were indicted this week by an Indiana grand jury on charges of bribing a former state highway official.

The indictment of Hutcheson, along with union Vice-Pres. O. William Blaier and Frank M. Chapman, treasurer, virtually assures a Senate probe into the Carpenters' affairs.

Hutcheson and his fellow officers were accused of giving three checks totaling \$16,800 to Harry Doggett, top highway official. The sum is alleged to be part of an \$81,400 profit made by the three union leaders in "quicke" right-of-way highway deals in Indiana's Lake and Wayne Counties.

Hoffa Forces Win Control in New York After 12-Day Strike and an Election

An election victory and the successful conclusion of a 12-day strike last week firmly established supporters of Teamsters' Pres. James R. Hoffa in control of Greater New York area truckers.

A two-to-one defeat of anti-Hoffa "New Deal" forces reelected John J. O'Rourke as president of the powerful, 58-local, 127,000-member Teamsters Joint Council 16. O'Rourke is a Teamsters vice-president closely linked with Hoffa.

"Clean union" proponents maintained a toehold with the uncontested election of brewery local head John Hoh as a Council vice-president. Senate racket investigators will scrutinize the election, but no upset is expected.

After the election, O'Rourke, also president of the sand, gravel and concrete drivers' Local 283, quickly negotiated a settlement in a material drivers' strike that had disrupted New York's multimillion-dollar construction industry. The strike was over travel and maintenance issues left unsettled after a strike last summer ended with a wage boost.

The truckers' strike served notice on the building trades that the Teamsters must still be reckoned with, despite expulsion from the AFL-CIO. At the present time, O'Rourke is preparing to push a \$300,000 organizing drive among nonunion drivers in suburban down-state New York.

Glass Blowers Win Series of Boosts

Under New Long-Term Contract

Some 35,000 members of the Glass Bottle Blowers' Assn. (AFL-CIO) will receive wage and pension increases Mar. 1 under long-term contracts with major glass container manufacturers expiring Mar. 1, 1960.

Under deferred benefits clauses:

- Workers will receive a 2% general wage increase.
- The night shift differential will be boosted about 3¢ an hour.
- Pension benefits, exclusive of social security, will be doubled, from \$35 to \$70 a month. This will be done by doubling present \$1-a-year service credit.

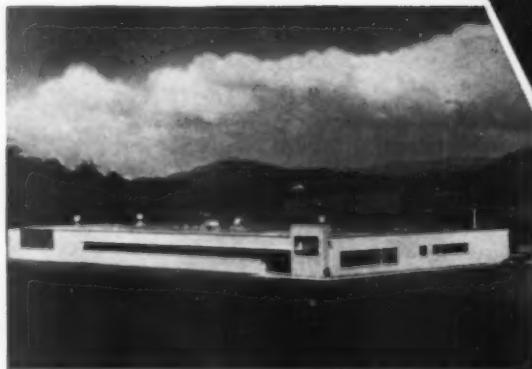
Profit-Sharing Fund Is Earmarked For Auto Workers' Medicine Insurance

The United Auto Workers' General Motors Council last week gave the first indication of how UAW members may utilize profit-sharing fund gains—if they win in bargaining this spring.

Delegates to the union's GM Council conference voted for "elimination of worker contributions to hospital and medical insurance coverages [through] an allocation from the workers' share of the profits." Under present contracts, GM pays about half of the premium cost, workers the rest.

At a press conference afterward, Leonard Woodcock, director of UAW's GM Council, said that if layoffs and short weeks continue to be a problem in April, union negotiators will have "a free hand" to allocate any profit-sharing funds they can win to whatever other use they consider "right in view of the conditions at that time."

KITTY HAWK



KEARFOTT

Exacting craftsmanship has grown increasingly necessary from the dawn of the air age at Kitty Hawk to the day of jets and missiles at Asheville, where Kearfott Company produces precision electrical components. Vice President F. D. Herbert, Jr., of this fast growing subsidiary of General Precision Equipment Corporation, says: "Kearfott craftsmen, drawn from the environs of our Asheville plant, are of exceptionally high caliber, with a manifest desire to maintain a high level of efficiency, productivity, and product quality."



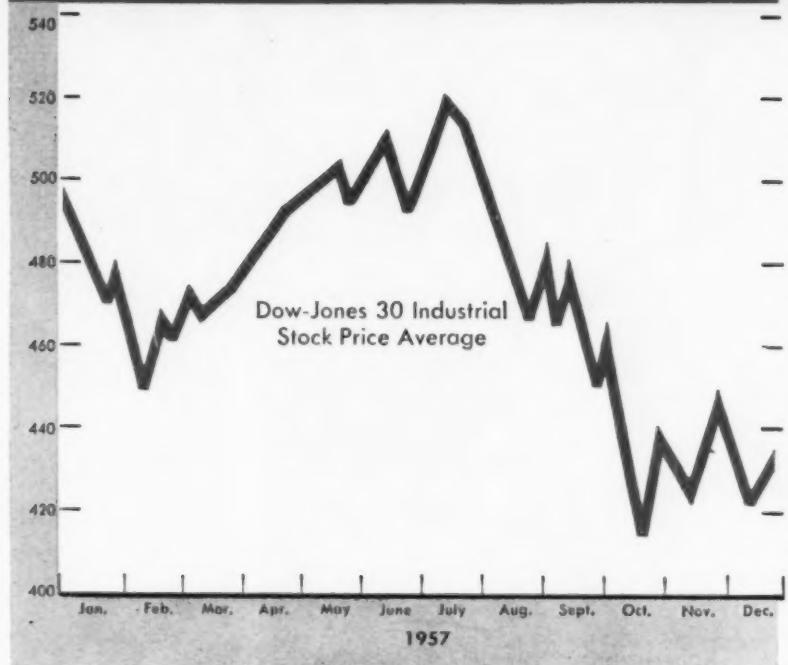
North Carolina, in the invigorating mid-south, continues to progress under the dynamic leadership of Business Man Governor Luther H. Hodges.

NORTH CAROLINA

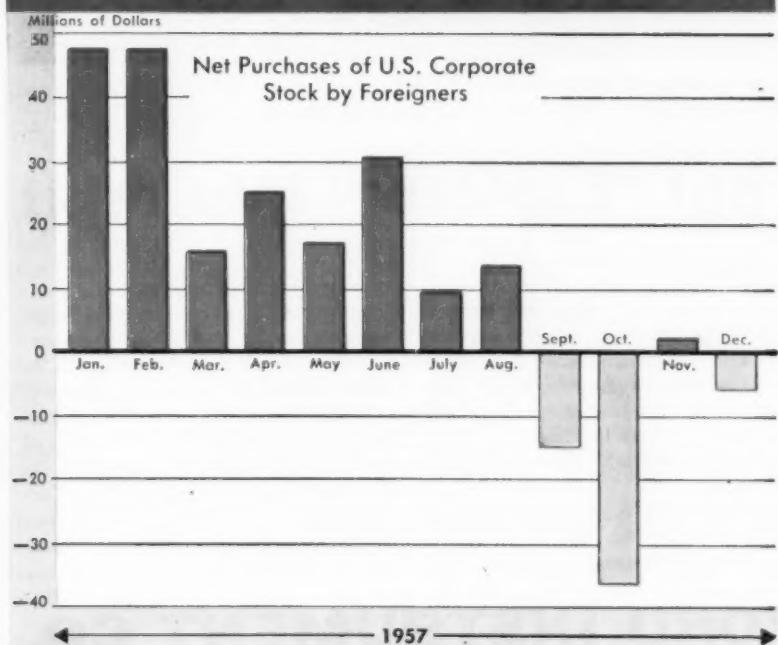
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How Foreigners Play the Market

As the Market Rises and Falls . . .



Smart Money From Abroad Accentuates the Swings



Data: U.S. Treasury Dept.

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Few things excite Wall Street so much as a rumor that foreign investors are selling or buying certain stocks in volume. Rightly or wrongly, money from abroad has gained the reputation of being both "smart" and "hot." It supposedly owes allegiance to no country, to no stock, but flows wherever a buck can be turned fastest.

This reputation may rest on shaky ground, but its effect is unmistakable. Many brokers, traders, and investors try to ride the same horses as their foreign cousins, though others—once bitten—are twice shy of this form of guessing the market. In any event, more Wall Street investors than ever before are keeping an eye on it—not in search of hot tips but because foreign money is playing a more dynamic role in the U.S. stock market than ever before.

- **Impact on Indexes**—The charts at left trace the growth of this role. They show that last year foreign investors pumped additional strength into the market when it was bullish, then dumped their portfolios abruptly when the market slumped. Their sell-off undoubtedly aggravated the decline.

For example, in October, when the Dow-Jones industrial average hit a low of 419, nonresidents cut their holdings of U.S. corporate stocks by a net of \$36.6-million. The sum isn't too impressive, but the added selling pressure helped drive the market to an extreme low.

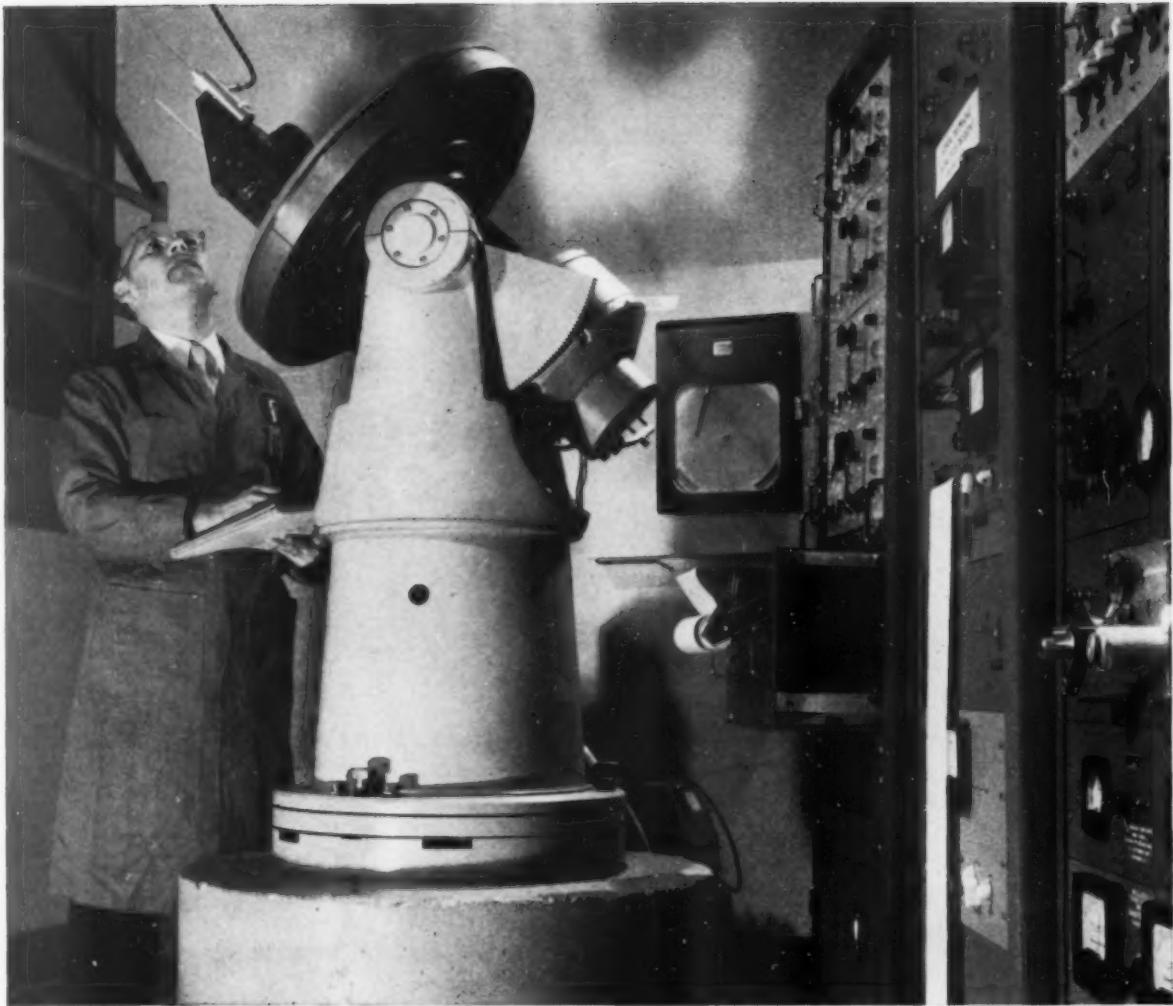
- **Foreigners Change, Too**—This new impact of foreign money highlights the changing characteristics of foreign investors.

At the turn of the century, foreign investors—the European moneyed class—bought U.S. common stocks only on a very selective basis. They bought only the stocks that seemed to represent the bricks and mortar of an expanding U.S.—the rails, utilities, raw materials. This purchasing pattern varied little down through the years.

However, since the end of World War II, and particularly in the past three years, foreign investors have been conscious of broader opportunities in U.S. stocks. Partly, it is a result of currency weakness in the rest of the world, partly of a desire of the new rich in Europe to find outlets for their profits.

- **Holdings Grow**—For example, in 1946, the value of nonresident holdings of U.S. corporate stocks was only \$2.4-billion; by 1953, it was up to \$3.4-billion—mainly because of an increase in stock values, rather than because of additional purchases.

By 1956, however, the total was up to \$6.3-billion and by the end of 1957,



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A special guidance system for the Jupiter C, developed by the Army Ballistic Missile Agency, was used to launch the first U. S. artificial satellite into space.

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The fabulously-equipped, fantastically-clean gyro lab (above) is only a small part of the advanced research and

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preliminary estimates showed it could reach close to \$7-billion.

• **Distinctions**—Along with this growth have come changes in the mentality of foreign investors. They have, of course, many of the same motives of U.S. investors, but they're not cut from the same pattern:

- Because they are almost wholly from upper income brackets, they are more sophisticated than American investors. But that doesn't mean they don't make mistakes.

- They're willing to play market turns more readily than Americans. But all but the most daring shy away from low-priced speculative stocks.

- A new crop of names has attracted them. They still buy old favorites (the rails) and blue chips (General Motors, General Electric, the steels), but now they invest in a wider variety of stocks. They lean toward those companies whose products they recognize and buy abroad. And they've started to invest, too, in those U.S. companies that have built subsidiaries overseas.

- **National Differences**—There are also differences from country to country, based on currency and tax questions. To cite but a few examples:

- In many countries, an investor has to pay an exorbitant premium to get dollars for purchase of U.S. securities. In France, for example, which is less U.S.-stock-conscious than most other countries, the premium is close to 30%.

- In Britain, there's only a limited pool of funds available for the purchase of American securities. This restricts buying, but there's also a better tax break on dividends—and that encourages it.

- In Holland and Switzerland, which account for a large chunk of foreign investments, dollar stocks can be bought freely at parity, so there's additional stimulus for investors.

- **Magic Lure**—The magic of buying U.S. stocks is potent in Europe for a number of reasons. Foremost is that there are no capital gains taxes overseas. Since a U.S. investor can't take a capital gain until he has held the stock for six months, he is often locked in on stocks. But Europeans are able to trade and speculate freely. They can move in and out of stocks, take losses, accept modest gains, and continually shift their funds into new money-making channels.

Besides, U.S. stocks fluctuate more than European stocks. European markets are small, and there is little general interest in speculating in stocks. So the volatility of U.S. stocks appeals to professional European investors. These professionals speculate widely and are considered, by Wall Street standards, particularly susceptible to tips.

- **Sucker List**—"There's as big a sucker

list abroad as here," flatly states one U.S. broker. London brokers, for example, were notable losers when the prices of Canadian penny uranium and oil stocks soared, then collapsed.

This speculative cast to foreign investors involves them with many special situations on the Big Board. During the sharp rise in the price of Lukens Steel common last spring, for example, it was rumored that Greek tanker owners were instrumental in sending prices on their tear. And even the sagacious Swiss reportedly were caught in the shenanigans of the Baltimore & Ohio last year as the rail company's stock went from about a \$58 high to a \$22 low.

- **Solid Investment**—This doesn't mean that all foreign investors indulge in constant shuffling. Many share the same long-term investment goals as many Americans and the continued rise of the European institutional investors has been a controlling hand on speculation.

Most of these institutions adhere to the so-called Boston point of view toward investing. They're not above taking short-term gains, but they have basically a long-term viewpoint—influenced to a good degree by the expectation of currency strength or weakness.

- **Why They're Selling**—This expectation explains in part why Europe is now a net seller of U.S. stocks, and it points up one of the major differences between foreign and U.S. investors: European investors are much more conscious of currency fluctuations than U.S. investors.

They have lived through many inflationary periods, usually more violent than U.S. investors have experienced. And they're more painfully aware of the Great Depression than Americans seem to be. So they are alert to the fiscal and monetary problems of the U.S., and they would rather sit on the sidelines until the problems have been ironed out.

Investment Funds Stick to Blue Chips

Top companies have not made major changes in policy, but there have been some shifts to defensive shares.

What stocks are the big investment companies, whose managements pride themselves on their skill in choosing securities, now favoring? A study made by Arthur Wiesenberger & Co. of the stocks most favored by the nation's 24 largest investment funds, with assets exceeding \$100-million each, reveals considerable unanimity in their selections.

- **Blue Chips Still Rate**—It's apparent from the list that blue chip growth stocks in general still are being favored by the investment companies. A good number have switched some of their holdings into more stable defensive shares, but very few defensive shares rank among the five largest holdings for any of the funds.

For example, only one fund had a tobacco stock among its five largest holdings. That is Affiliated Funds, which lists Reynolds Tobacco as its third biggest holding, comprising 2.4% of its net assets. Only three held American Telephone & Telegraph among their top five, although AT&T is noted for its price—and dividend-stability. In fact, one of the three, National Securities Stock Series, sold some AT&T.

Comparatively few companies made any major changes in their five largest holdings, although there has been some shifting.

- **Oil Ranks First**—The most widely held stock of all is Standard Oil of New Jersey, which 12 out of the 24 com-

panies—consisting of 21 open-end funds and three closed-end companies—report as among the five largest holdings in their portfolios. These firms held over 1.7-million shares valued at \$85.3-million at year end.

Oil stocks generally were favored by the big investment companies, even though they have been among the hardest hit of all stock groups. The second most popular holding was Texas Co. stock, which eight companies listed among their first five. Their holdings were valued at \$68-billion. And Gulf Oil shares, valued at \$35-million, were selected by six companies.

Other stocks favored are International Business Machines, which is on seven lists for a value of \$85-million, and Goodyear Tire & Rubber, on four lists with a value of \$46-million.

While most of the investment funds were not defensively minded, a number hold stocks that performed well in the downturn. Drug stocks, like Merck & Co., Parke, Davis & Co., and Pfizer, and growth utilities, like Florida Power & Light, are favored in some portfolios.

But the big investment funds also have some heavy losers. Five companies count U.S. Steel among their top holdings, and two have Bethlehem Steel. Both stocks have suffered in the past year. Only one company has Reynolds Metals, one of the hard-hit aluminum group that was formerly a favorite. **END**

In The Markets

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Bond Market Looks for Big Lift From Fed Cut in Reserve Requirements

The bond market was cheered this week by the Federal Reserve cut in reserve requirements (page 34).

Before the announcement, the bond market—and particularly Treasury securities—had shown signs of real nervousness. The market knew that a cut in reserves was in the works, but its timing was uncertain. Prices moved down as both bankers and dealers complained that the Fed was reluctant to make any sizable increase in the money supply.

But the across-the-board cut changed market sentiment. In fact, most dealers felt that this move would be followed by other action in the way of ease. A further cut in the discount rate is expected, as well as another reduction in reserve requirements.

It is probable that a discount rate cut will come within the next week or two. And a reduction in reserve requirements—by another $\frac{1}{4}$ of 1%—is likely by April.

There's little doubt that even the present action will boost bond prices considerably. For the cut, which takes effect at the end of February, will provide the banking system with about \$500-million in excess reserves—or over \$3-billion in additional lending power.

With loan demand slack, much of these funds will go into the bond market. And dealers feel that any additional action will simply serve to solidify the bull market in bonds.

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Stock Prices Stand Up This Week Under Barrage of Dividend Cuts

Stock market investors this week were less active, apparently awaiting portents of the economic future. They were shrugging bad news at the same time that they took the few bright developments with a grain of salt.

Most stocks moved in a very narrow margin due to light trading. Even stocks that cut dividends did not move sharply. There were, in fact, a surprising number of dividend cuts reported by a wide variety of companies. A partial listing of this week's reductions shows cuts in Fanny Farmer Candy Shops, Micromatic Hone, Globe Union, Federal Screw Works, Crucible Steel, Muskegon Piston Ring, Great Northern Paper, Firth Carpet, Whirlpool, and Curtiss Wright.

Curtiss Wright stock was actually bid up more than \$2 on the news of its cut. One broker explained that the reduction was smaller than expected and that there was a good deal of short covering.

The steadiness of the market in the face of dividend cuts and poor earnings reports was cited as a source of strength. As Arthur Vare of Kalb, Voorhis & Co. observed, "Considering all the bad news the market has had

thrown at it, it's astonishing that it has been able to hold up so well."

But a lot of traders feel that the market is due for a drop. This is apparent from the rise in short-interest holdings, which increased to 3.9-million shares, up more than 1-million since mid-January. Short interest is now at the highest level since 1932.

Most brokers, however, say that stability is probable for a while longer. They think investors are waiting to see what March will bring, not only in the way of economic news but also in government action. A tax cut or increased spending will probably serve to boost stock prices, while if Washington remains inactive, a decided downturn is more likely.

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Dividend Increase Fails to Halt

P. Lorillard's Stock Nose Dive

Profit-taking drove down the stock price of P. Lorillard this week, one of the market's best performers since last summer, even though the company announced a dividend increase.

The selling pressure built up when Poor's Advisory Survey suggested that profits be taken in the stock, whose price has shot from a low of \$15.62 last year to above \$40. On Tuesday, there were so many sell orders—mostly from small investors—that trading had to be suspended for 38 minutes. Wednesday, Lorillard announced that it would pay a 50¢ dividend this quarter compared with 30¢ in previous quarters.

The market took this as disappointing, and again trading was suspended after another rush of sell orders. When trading was resumed, the stock sold off over \$5 from its high. An additional reason for the drop was a Congressional report criticizing advertising practices of filter-tip cigarettes. The entire tobacco group was hit by selling pressure.

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The Markets Briefs

The rates that commercial banks pay on time deposits began slipping this week as two of New York's big banks announced that they were cutting by one half of 1%—to 2% for three-month money and 2½% for six months or longer. The two rate movers, Hanover and J. P. Morgan, were not immediately joined by other banks.

Cocoa futures firmed this week after the Food & Agriculture Cocoa Study Group forecast a sharp drop in world production. The group estimated that cocoa production will be only 747,000 metric tons for the year ending Sept. 30, compared to 901,000 tons last year.

A special review of the aviation industry, compiled by John H. Lewis & Co., shows that airline stocks are advancing sharply in price while aircraft manufacturing stocks are dipping moderately. Moreover, the study suggests that most airline stocks—despite the uncertainty of their short-term earnings outlook—are attractive for long-term investments.



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PERSONAL BUSINESS

BUSINESS WEEK

FEB. 22, 1958



With the April tax-filing date approaching fast, there is a special incentive to keep up with Washington's stream of new rules and regulations for individual taxpayers.

Here's a quick rundown on some of these new rulings—mainly in the medical and dependency areas—that may affect your personal tax-planning.

A new ruling on college scholarships may provide you with some tax savings. Now you don't have to count the amount of scholarship your youngster receives in determining whether or not you have furnished more than half his support for the year. For example, if your son is in college with a \$1,500-a-year scholarship and you contribute an additional \$1,000 to his support, you're still entitled to a dependency deduction.

Incidentally, while there has been plenty of talk of providing special tax relief for parents of college students (one proposal is to boost the exemption from \$600 to \$1,200), there's been very little action. Such proposals will have to pass some pretty steep Congressional hurdles.

Two other "dependency" items you should know about:

IRS now takes the position that the fair rental value of quarters provided a dependent in the taxpayer's home may be figured as part of the taxpayer's contribution to the dependent's total support—to establish dependency. This reverses the old IRS rule that only amounts actually spent may be counted as contribution to support.

IRS has a convenient new tax form (2441) if you file for a "child care" deduction. This optional form can be used instead of other supporting papers; it applies, of course, only if you itemize deductions on Form 1040. The deduction covers dependents who are either under 12 years of age, or who are older but incapable of self-care and for whom you employ care during your own working hours. It is limited to a woman, widower, or divorced or legally separated man who must, for example, pay a nursery school to care for a child while the parent is at work.

Another recent IRS ruling can cause trouble for custodian accounts for minors if it's overlooked. IRS says that, if a father dies while acting as custodian of his minor child's securities account, the stocks will be treated as part of the father's estate. So if part of your purpose in making the gift to the child was to cut down on estate tax, you might find it wise to amend your program. You might name someone else as custodian—possibly your wife, another relative, or your family attorney.

For the homeowner, there are also these IRS developments.

There's a new optional tax form (2119) designed to clarify and explain "home sales" entered on Schedule D of the 1040—where you sell your home at a gain, then buy another home within the legal time limit, and thus avoid all or part of the capital gains tax.

You now get a slight tax break if you prepay part or all of your mortgage and get tabbed with a penalty for the prepayment. The IRS will let you deduct the penalty as "interest."

If you suffered damage to your property last year, make sure you know whether you can take deductions for such damage. A great deal of con-

PERSONAL BUSINESS (Continued)

BUSINESS WEEK
FEB. 22, 1958

fusion exists in this area. The rule basically is this: You can deduct a personal property loss, caused by wind, storm, lightning—other types of sudden destruction. On the other hand, a "slow process" loss is not deductible. Thus, a tree uprooted in a storm is deductible, but one done in by insects is not. (If your case falls in between, you may be able to get a special ruling.)

On the medical front, there are several new IRS actions.

- A new tax form (2440, optional) can be used to support exclusion of "sick pay" from taxable income (line 6b, page 1, form 1040). The exclusion applies to salary received while away from work due to illness or injury. It carries a top weekly limit of \$100.
- Cost of special schooling, training, and care for physically and mentally handicapped persons is now deductible as a medical expense. IRS has formalized the unofficial position it took on this in September, 1956. (Taxpayers can also apply for refunds for 1954-56.)
- Social Security tax paid, along with the wages of a private nurse hired to take care of a taxpayer's dependent, may now be deducted.
- The cost of a motor-driven or manual wheelchair used by a disabled person is now deductible.

For a full look at medical deductions, see the new IRS Bulletin "1957-58" (20¢); U. S. Government Printing Office, Washington 25, D. C.

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If you're a poodle owner take an appraising new look at your pet. Emergence of a white standard poodle as "best in show" at the Westminster Kennel Club's annual event, dogdom's top show, helps boost the breed's popularity. Poodles now rank fifth in popularity. Last year, 33,253 poodles (standard, miniature, and toy) were registered with the American Kennel Club.

Still leading in national appeal are beagles, with chihuahuas, dachshunds, and boxers next. Slipping in popularity have been boxers (2nd place to 4th) and cocker spaniels (5th to 7th), while chihuahuas (3rd to 2nd) and dachshunds (4th to 3rd) have moved up.

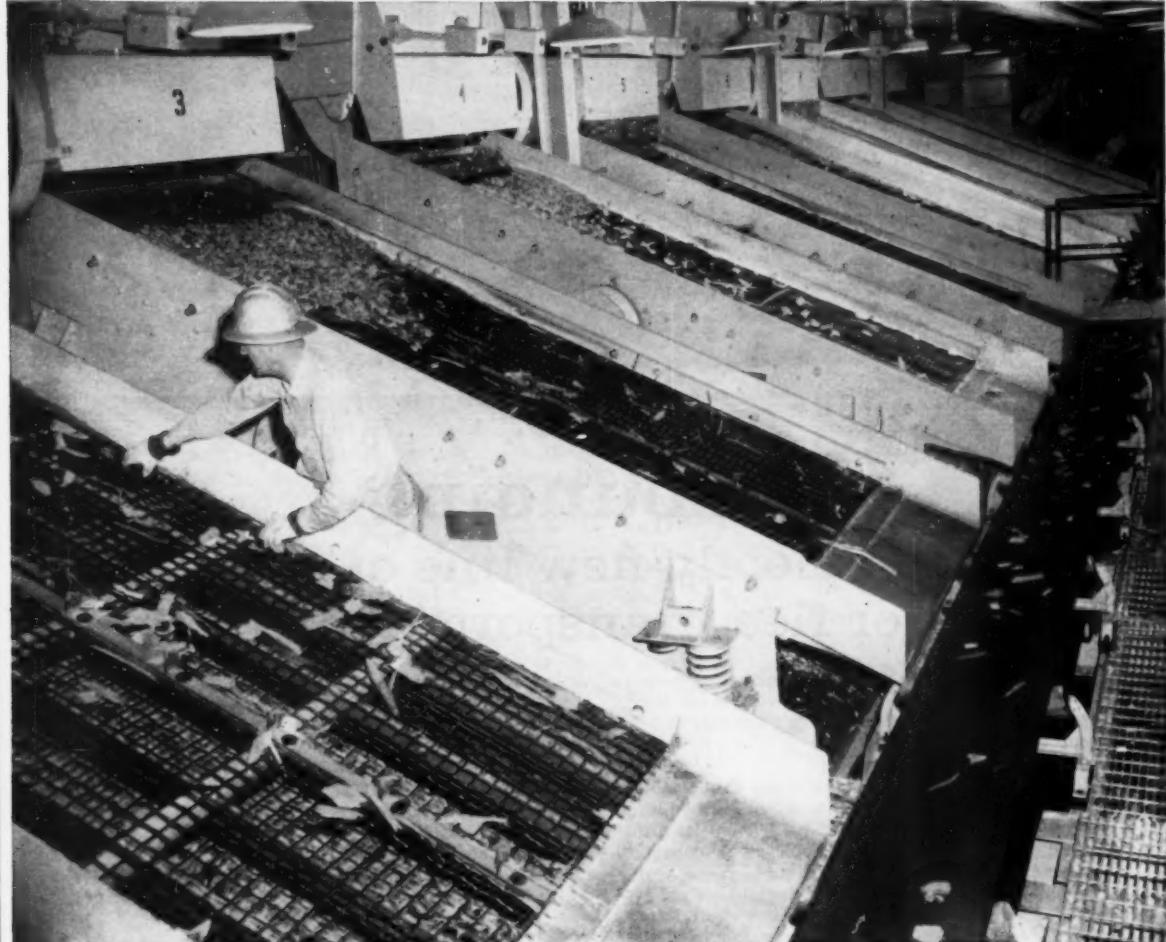
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Winter health: Someone in your family may need another flu shot. In view of rising deaths from influenza and pneumonia, particularly in the Far West, the U. S. Public Health Service recommends a second shot for "special risk" cases—elderly persons, pregnant women, and those suffering from heart or pulmonary diseases. If you're not in the "risk" class, and have had one shot, you're considered immune for the season.

If you haven't had much luck with the "fluid" approach to curing colds, check with your doctor about trying dehydration. This turnabout from "drink all the liquids you can" was featured recently in the Southern Medical Journal. One routine includes limiting fluids to about 30 oz. a day—one cup (6 oz.) of soup, fruit juice, vegetable juice, tea, or coffee every three hours while awake; no water and little salt. Your physician may object. Such treatment may have adverse effects if you're running a temperature or have an upset stomach.

For a mild frostbite, some researchers now agree with the Eskimos and suggest a quick-thaw in water the temperature of a hot bath—about 108F. (A severe case should receive professional treatment immediately.)

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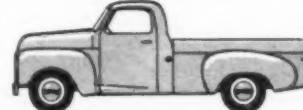


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Fed Loads Its Heaviest Weapon

Money managers prepare to cut reserve requirements as the ultimate arm against recession. But there's bound to be a lag between the cut and its effect.

To help counteract the recession, the nation's money managers are readying the most powerful weapon in their arsenal—a reduction in reserve requirements.

This move, when it comes, will immediately pump additional funds into the nation's banking system. Reducing reserve requirements—the percentage of funds a bank must keep to cover its demand deposits—gives the banks more cash for loans and investments. It's a move that has generally been used only in periods of economic contraction.

• **Little Means a Lot**—The seven-man Federal Reserve Board, which alone is empowered to fix reserve requirements, has not given any indication of just how big a reduction it is considering. But even a minor move will be a big shot-in-the-arm to the banks.

For example, merely eliminating the differential that exists between central reserve city banks—in New York and Chicago—and other reserve city banks would mean an additional \$550-million in reserves. This would provide a theoretical \$2.7-billion in additional lending power. And an across-the-board reduction of 1% in all member banks would mean \$1.1-billion in increased reserves—equivalent to more than \$6-billion in lending power.

Whatever the size of the reduction, it will be the most powerful step in the Fed's current policy of easing credit.

I. The Fed's Weapons

In carrying out monetary policy, the Fed makes use of three general and indirect controls:

Open market operations consist of buying and selling the Treasury securities in the Fed's portfolio. When the Fed sells, it tends to cut down on the reserve funds held by member banks; when it buys, it increases reserves. Open market operations are used for day-to-day changes, as well as for gradual shifts in credit policy.

Changes in the discount rate have no direct effect on bank reserves, but make it cheaper or dearer for the banks themselves to borrow. Thus, such changes have an indirect impact on reserve positions. When the rate is raised, as it was during the tight money period, the banks are served warning that they should not keep borrowing from the

Fed. When it is lowered, it is a sign that the Fed encourages borrowing.

Changes in reserve requirements are not a gradual or precise type of credit control. Such a change is a blunt weapon that has an emphatic effect on the reserves of all commercial banks.

- **Swing of Sentiment**—Since mid-November, when the Fed made its dramatic cut in the discount rate from 3½% to 3%, it has moved cautiously in the direction of ease. It followed its first move with a reduction in stock margin requirements—its only specific control—and a further cut in the discount rate—from 3% to 2½%.

It has also used open market operations. In the past six weeks, it has curtailed its usual seasonal selling of Treasury bills, a step that is designed to mop up the excess cash that normally flows back to the banks after Christmas. This "neutral" action has provided the banks with greater reserves.

- **Banks Not Satisfied**—But these moves have been mainly psychological. In fact, the banks complain that the Fed has been quick to lower the cost of borrowing but slow to provide the additional reserves for lending purposes.

Up to now, they say, the money managers have relied on the slackening in demand for credit to provide the banks with more reserves. But now, as one money man puts it, "The Fed can no longer let nature take its course—it has to take action to increase the supply of lendable funds."

Many Fed officials have been in favor of lowering reserve requirements and eliminating the differential in reserves now required between the central reserve cities and the others. But they have argued that no such cut in requirements could be made as long as an anti-inflationary policy was still in force. This argument, the Fed admits, is no longer valid.

At the same time, the Fed is still worried about the long-range inflationary threat (it is significant, however, that the Fed did not increase reserve requirements in its 1955-57 bout with inflation). It has not wanted to move too fast or too strongly in the direction of ease until it was sure that the economy was sliding. So it has made use of its more gradual weapons.

The banking community has been pressing for a reduction in reserves as

the surest way of providing the credit for economic growth. A systematic plan, for example, is being pushed by the American Bankers Assn. It wants the Fed to take the following steps:

- Reduce reserve requirements against demand deposits gradually to a uniform 10%. These now stand at 20% in the central reserve cities, 18% in the 48 reserve cities, and 12% in the remaining ones, the country banks. The ABA proposes letting the Fed vary requirements between 8% and 12% "under unusual circumstances."

- Reduce requirements on savings and other time deposits from 5% to 2%.

- Permit vault cash to be included in figuring reserve balances.

II. Wide Support

Because the last two provisions would practically wipe out the requirement of a reserve against time deposits, this plan has won over the country banks. This group, comprising the majority of banks, does not have large demand deposits but does have large time deposits.

In the past, these banks have shied away from any plan to equalize reserve requirements, because they have had an advantage over city banks, being able to lend more on each dollar of deposits. Now, however, the main competition for many country banks is coming from savings and loan associations, which aren't required to freeze any cash.

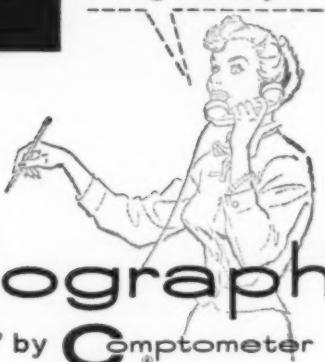
The big banks naturally want low reserves, because it would mean a vast increase in their lendable funds—and their potential earnings.

- **Some Dissent**—While the Fed acknowledges that reserve requirements should be lowered to take care of increased credit demand over the long run, it is not backing the ABA recommendations. For one thing, committing itself to a systematic reduction would strip the Fed of flexibility in making credit policy and would tend to lessen the powerful impact that changes in reserve requirements now have on the credit supply. For another, the Fed's concern over inflation makes it doubtful that it would consider a sweeping reduction.

There are bankers, too, who feel that no reduction is necessary. For example, Fred F. Florence, chairman of the Republic National Bank in Dallas and a former president of ABA, last week came out against any reduction. As he sees it, the economy may soon enjoy an upturn, which will force the Fed to re-



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verse its present easy policy once again.

• **About to Happen**—Nevertheless, Fed officials are talking openly about the need for a reduction. Despite denials, it is probable that a move will be made in the next four or five weeks, prior to the Treasury's next financing operation. That would assure the Treasury a successful offering.

Besides making additional funds available to the banking system, it will also mean still cheaper borrowing rates, because of the very fact that the supply of funds will be greatly increased. The Fed's discount rate will undoubtedly be reduced again, probably before reserve requirements are cut. And the commercial banks will be under pressure to lower their lending rates once more.

However, it is doubtful that the Fed will allow all the funds made available by a reduction in reserves to remain in the banking system. They will probably use open market operations—selling Treasury securities—partially to offset the increase.

• **Time Lag**—While a cut in reserve requirements is the most powerful weapon of credit policy, there is always a lag before it becomes effective. When business activity and profits are lower, the demand for loans to expand plant or inventories is also less. So it's unlikely that all the funds made available will be used at once.

The Fed found this to be true in 1953, and it admits that the lag is likely to show up again. But the cut itself will lay the groundwork for a big increase in loans when business picks up. And this is what the Fed is counting on.

MONEY & CREDIT BRIEFS

Justifying the Fed's tight money policy throughout most of 1957, the annual report of Cleveland's Fed points out that "at no time during the first nine or 10 months of 1957 was there in existence and available a reservoir of unused manpower."

The investigation of the U.S. money and credit system, sponsored by the Committee for Economic Development and the Ford Foundation, is expected to get under way in early March, when the study committee will be appointed.

An annual survey of bank-administered personal trusts was announced last week at the mid-winter trust conference of the American Bankers Assn. The ABA says the survey will show trends and patterns in trust investments; it's part of a plan to tell the public more about trust departments.

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PROFESSIONS

Doctors

Miracle drugs and the rise of specialties have changed the medical profession—and aroused some suspicions of doctors as a group.

In Philadelphia not long ago that venerable organization, the American Medical Assn., met for four days to give its members a chance to talk over their problems and to pat themselves on the back for past successes.

It gave the AMA's president, Dr. David B. Allman, an opportunity to denounce a bill before Congress that would extend medical and hospital care to persons over 65 who are already getting Social Security payments. Said Dr. Allman: "This is socialized medicine . . . We must all fight it."

It gave the AMA a chance to present a gold medal to its doctor of the year, Cecil W. Clark, from Cameron, La. Dr. Clark's hometown was leveled by Hurricane Audrey last June. Three of the doctor's five sons were swept away in the flood that engulfed the town. But Dr. Clark worked three days and nights without sleep helping the injured.

And with those two events, announced the same day, the medical profession gave the U.S. public a fresh opportunity to add to its already copious store of opinions about physicians.

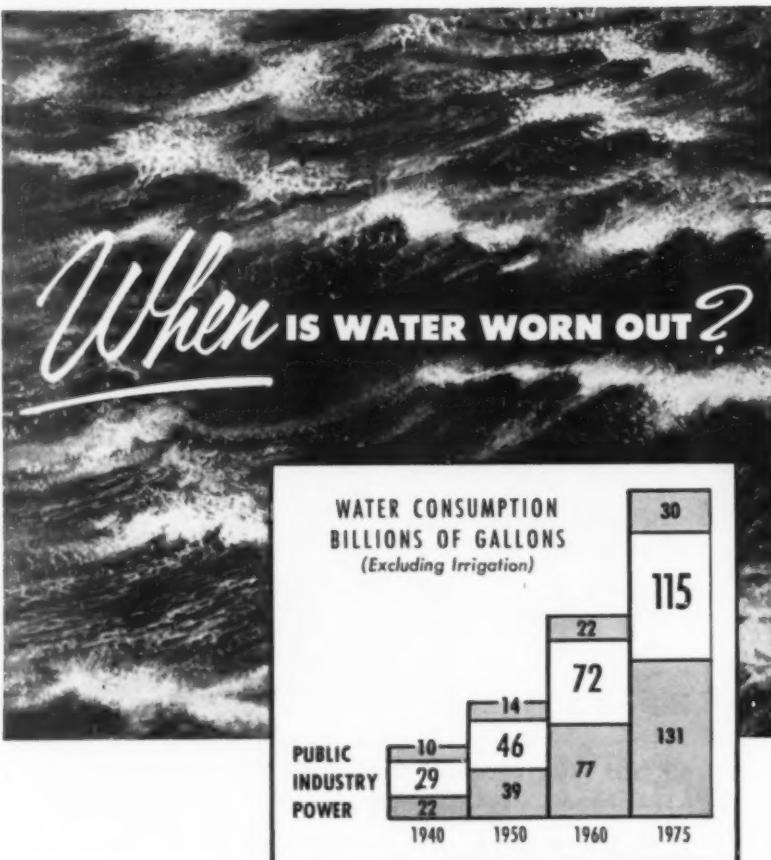
For one part of the public, the award to Dr. Clark indicated for sure that the U.S. medical profession is made up of men who are selfless, sincere, loyal, and sympathetic.

For another group—by far the larger if you're to believe the snap answers of most of the people you meet—Dr. Allman's call to arms confirmed all over again that the U.S. medical profession is formed almost entirely of men who are avaricious, selfseeking, inhuman, lackadaisical, and hypocritical.

- Views in Stress—That so many should hold such extreme opinions about doctors is only reasonable, although the opinions themselves aren't at all rational. Most people speak with doctors only at times of stress, when they or their families are ill. These are fruitful times for forming opinions, but not for forming rational ones.

Doctors have lived with this irrationality since Hippocrates. But it's only recently that they have faced a reaction of widespread and intense suspicion.

Even 30 years ago, the U.S. physician was generally held in pretty high esteem. He was still the family doctor. He had left behind his horse and buggy, but still had about him some of the old aura of parish priest or county philoso-



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Patients See a Split Personality

pher, of one whose profession was as much art as science. He would sit a night and a day at the bedside of a child with pneumonia; if the child died, the neighbors' sympathy was as much for the doctor as for the parents. If the child recovered, it was reckoned that the doctor "pulled him through," though the doctor, who had few drugs available then, probably knew that nature had helped. He could still easily diagnose as "overeating of ice cream or apples" what turned out next day to be a fatal case of appendicitis, and rarely would anyone denounce him.

If he had more worldly goods than some of his neighbors, few begrimed him his income; he seemed to spend as much time away from home, calling on his patients, as a traveling salesman.

In proportion to the country's population, he had more colleagues (or competitors) than he has today. Thirty-odd years ago there was one doctor for about every 600 people; today, the ratio is one to more than 700. But the doctors' patients got a good deal less scientific diagnosis and care—and died a lot earlier—than is the rule today.

For all that, the doctor was a leader in his community, was looked on not just with respect, but with affection, too.

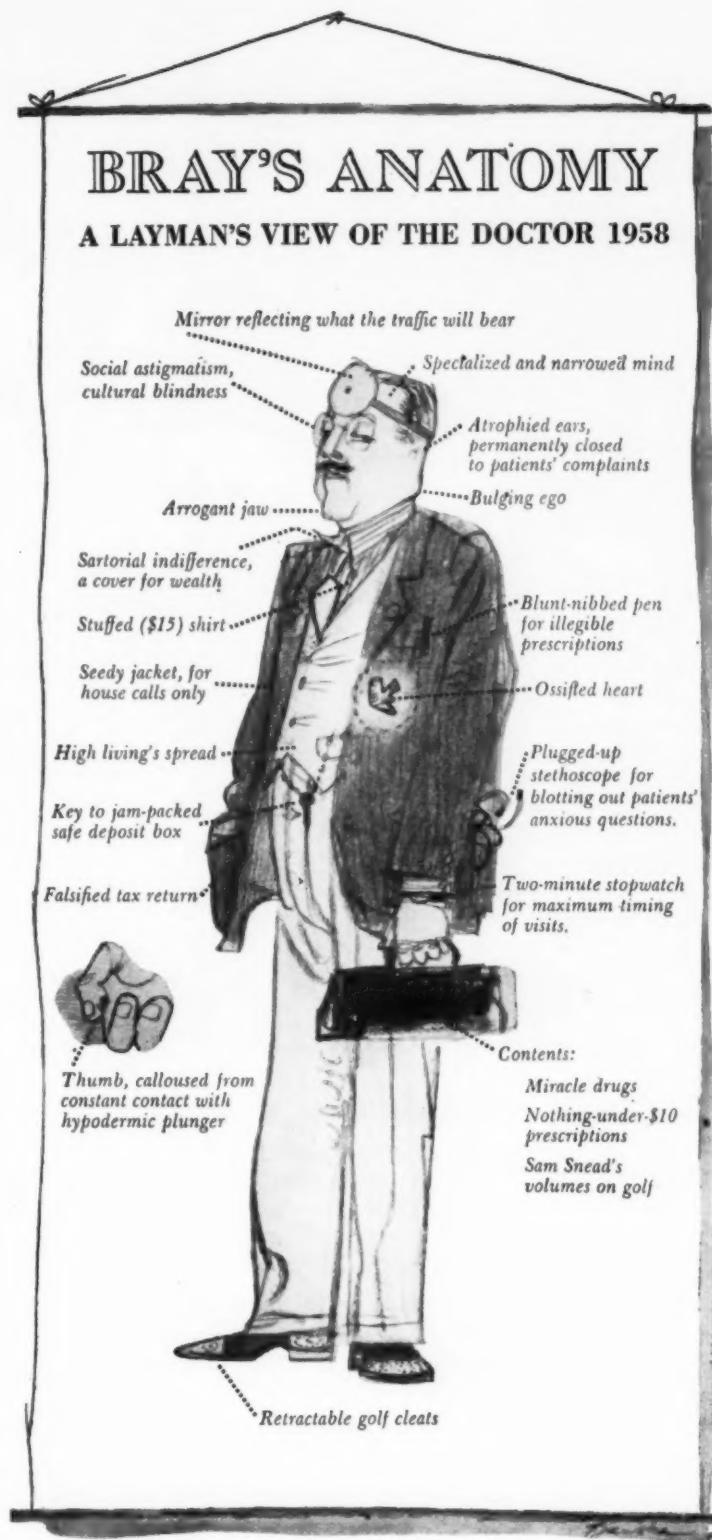
• **New Suspicion**—Now all this has changed. Affection has just about gone, and respect has dwindled. Even those who swear by their own physician's decency and honesty "know" that most other doctors are as rich as Croesus, drive nothing but Cadillacs, persistently cheat on their taxes, and are always boasting their already sky-high fees.

(Oddly enough, they "know," too, that this avaricious average doctor cares so little about money that he won't see patients at their homes; that though he's so enormously rich he is still too poor to equip his office properly.)

Anyone who momentarily doubts this knowledge of doctors can quickly confirm his prejudices. Among dozens of articles about the avarice and dishonesty of doctors published lately in mass-circulation magazines are "Why You Can't Afford to Be Sick" and "Why Do Doctors Lie to Their Patients?"

I. Who's So Rich?

When you turn to the available figures you find a different outline of the average physician. He turns out to be a man who in 1957 probably grossed about \$23,000 from his work, who netted before taxes a little less than \$16,000. He's about 45, has been in practice from 12 to 15 years. He works





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more than 55 hours a week, sees between 25 and 30 patients a day. He's almost certain to have had nine years in training after he started college: four years pre-medical, three years at medical school, one year as an intern, and at least another year as a hospital resident. He has a home that cost him some \$35,000 in a city with a population less than 750,000. He's more likely to drive a Ford or an Oldsmobile than a Cadillac. Since 1929, his income has risen no faster than the average of all wage earners; indeed his fees have gone up a little slower than that average.

A Croesus? A man gripped by avarice? Hardly.

• **Too Much Success**—You have to look elsewhere for the main cause of the fallen reputation of the U.S. physician. Close to the heart of the matter is the public charge that doctors are almost universally arrogant. The charge is based on any one of four particulars: The doctor listens with scant interest to the patients' own diagnoses of their own woes; the treatment he prescribes doesn't always work; he rarely visits patients in their homes; and for any illness worth talking about the general practitioner calls in a specialist who seems even more arrogant.

What has pushed the U.S. medical profession out of its exalted social position is, oddly, its very success. One part of the success, the search for new drugs, has been so fruitful and so well-publicized, that nowadays when a child gets pneumonia, all credit for its recovery goes to a "miracle drug." The doctor's work is discounted as thoroughly as it was once exaggerated.

So why does the doctor pay little attention to the patient's own attempted diagnosis? Says one physician: "Arteriosclerosis is a headline word today. The popular magazines are full of stories on anything from ingrowing toenails to frontal lobotomies. A mechanic who reads them for a year or two begins to think he's entitled to an M.D. degree." In the same way, when a doctor's prescribed treatment doesn't work, the prejudiced patient blames the doctor for a fool, assumes there's some kind of "miracle drug" in the cupboard that would work a cure if only the doctor had sense enough to know about it.

• **Too Much Science**—Medicine's high success in its search for new techniques contributes heavily to the other two particulars in the general charge of arrogance. Medical practice now rests on the scientific discovery of disease, on the doctor who isn't satisfied with making snap judgments from obvious symptoms but who searches for a cause that may be more obscure. For this work, the doctor needs quick access to the equipment in his office and in hospitals and laboratories. So except for emergencies, it's much less efficient and

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much less safe—for the patients—if the doctor visits them at their homes.

The same success has so expanded and refined medical knowledge that it's impossible for one doctor—or half a dozen of them—to know the whole field any more. There are 19 recognized medical specialty boards in the U.S., which have examined and accredited some 45,000 doctors who are specialists. Then, there are specialties within specialties, so that a doctor may have any of about 30 different titles, from allergist to urologist, after his name.

It's among all these men that the full depth of current medical knowledge lies. And it's from among them, not from among the generalists, that the great names in medicine come today. Many of these highly trained, highly specialized men may well be arrogant. By definition, an arrogant man claims for himself more consideration than he really warrants. So while a particular specialist manages to get by without more than a reasonable number of failures, it's hard to tell whether he can properly be branded as arrogant.

II. No Common Man

In the face of widespread public suspicion, doctors generally try one gambit to improve their public relations. "Why," they say, "we're just like other people."

This doesn't help at all. Whether they call themselves general practitioners or specialists, the fact remains that they're all members of a specialized group in the community.

It could hardly be otherwise for men whose formal training lasts a minimum of eight years and generally covers

about 10; who, at the age of 30 or 32 or even 35 start working in a field that offers little economic reward in the first couple of years, no matter how bright they may be. By the time they're 40, most doctors are still planning their budgets so they can recoup some of the money spent on their education. In the meantime, if they're competent and want to keep their standards high, they will have foregone more potential income because they spend a week every so often at seminars.

• **Grisly Economics**—When they talk about business, their conversation sends shivers down the spine of the most unemotional layman. There is, for instance, this brief outline of business conditions from a Midwestern doctor:

"When I started my practice in the late 1920s," he says, "I planned my budget so that all fees from pneumonia cases and from delivery of babies would go into savings. In those days you could automatically count on fees for 36 home visits for each pneumonia case. But in the mid-1930s came the sulfa drugs. After that you could count on only a dozen home visits. And 10 years later came penicillin. Nowadays you can count on no more than six home visits for a pneumonia case . . . A whole piece of my savings budget dried up . . . Of course, there are more heart disease and cancer cases. . . ."

• **Shoptalk**—The doctors' clinical shop-talk is, of course, of utmost importance to them. Without it they tend to rusticate, drop their standards, lose their competence. The greater their specialization, the more true this is. And this is one of the prime reasons why a city's medical specialists tend to congregate into one district.

All this narrows their range of interests. They are, as a group, more specialized in most ways than company presidents.

Since there is such specialization within this specialized group, it's impossible to draw a clear picture of the "average doctor." But from the statistics, you can gain an outline of some of the "typical doctors" who make up the U.S. medical profession.

A full half of the 160,000 independent, privately practicing doctors are general practitioners. The remainder is pretty evenly divided between men certified by the various specialty boards (of surgery, neurology, and so on) and those who call themselves specialists but haven't passed the stiff examinations for board accreditation.

• **Income Range**—Incomes vary widely. Doctors' profits from their medical work run, before taxes, from more than \$250,000 to minus quantities (for doctors who have fallen ill themselves). For the GPs, the average is a little less than \$11,000 a year today. The accredited specialists average 70% more—some \$18,000. The range among the specialists themselves is wide. Projections of data published by the Commerce Dept. in 1951 give these estimates of average net incomes for doctors in the 10 highest-paying specialties:

Neurosurgeons	\$34,300
Pathologists	26,700
Gynecologists	23,100
Orthopedic surgeons	22,500
Radiologists	22,200
General surgeons	21,300
Obstetricians	20,500
Psychiatrists	19,800
Urologists	19,600
Cardiologists	17,700

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pretty tough for all of them. Four years of college and three of medical school lead to an internship. For a year they work for from \$75 to \$100 a month under the direction of a hospital's leading doctors. After that, a man can break away from training. But each year, a growing number seeks specialization either because it pays so much better or because in a specialty they can practice a sharper science in a more limited field. How much longer they stay in training depends on the complexity of the field. But for the two to six years they're in residency at a training hospital they get no more than \$150 a month.

By the time they collect their degrees and accreditations, eight out of 10 of them are married, and three out of four of these have children.

III. Where His Money Goes

Most often it takes them another two years to establish their practices and start showing a profit. Some professional tricks can help them at the start. A pediatrician, for example, can swell his practice rapidly by offering his services cheap to the local school board, examining schoolchildren. Quickly, his name will be known to the neighborhood families. An allergist watches the pollen count in various parts of the nation. Florida, with its aged and retired population, is good territory for a heart specialist.

Geography affects income, too. That difficult-to-define man, the average, independent, privately practicing doctor makes more in Far Western and Southwestern states than elsewhere in the nation, and least in New England. He also tends to make most money in cities with populations between 250,000 and 500,000.

Until they're 32 or even 35, life has been pretty meager for most of them. All this time, the corporate man of the same age has been buying a home, filling it with furniture, books, hi-fi sets, stocking the liquor cabinet, buying increasingly expensive automobiles; and if he's very competent he probably is making \$10,000 to \$18,000.

So when a doctor, after all his training, sets up his practice and the fees start rolling in, he's ready to make up for all he has been missing. If he has the right personality, the right training, and a practice in the right community, he makes up with a will.

A pediatrician who set up his practice right after World War II in one of New York City's exurban centers shared well enough in the postwar baby boom and invested his profits wisely enough to be able to go into semireirement after little more than 10 years.

He's not typical, but he does show what can be done. Most often, a doctor must wait until he's 45 or 50 before his income reaches its peak. Meantime, he spends heavily.

• **Care for the Future**—Since he's an independent man with no pension plans, bonuses, deferred payments, or stock options working for him, he spends heavily on life insurance. Often he spends more than his accountant thinks he should, taking out a \$100,000 policy right at the start of his career.

From the start, he tends to spend heavily on his wife. She generally has enough money at her disposal to be one of the better-dressed women in the community. This, presumably, is a reward for her staying with him through the meager years of his training.

He, or anyway his wife, is as prone to try to keep up with the neighbors as anyone else. If he sets up his practice or his home in a suburb populated mostly

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by rising young executives, this can lead him into trouble. The neighbors live on salaries, which give them a far more assured income than the doctor.

This very pressure probably will soon break one New York suburban doctor. He has been 10 years in practice and is dropping rapidly into deeper and deeper debt. For the last three or four years he has been borrowing from his own patients. But unwilling to stop at that, he has been taking stock market tips from them, most of which have put him still deeper in the hole.

• **Wild Bettor?**—By legend, the doctor is a wild investor with a weakness for putting large amounts into penny uranium stocks and losing every cent. There are no statistics on this.

On a more sober plane, it's certain that he's a comparatively heavy investor. The New York Stock Exchange has been conducting a survey of professional groups' investment habits, probably the first such survey ever made. While final results will not be released for several months, one preliminary finding is that 40% of privately practicing U.S. physicians own corporate stocks.

• **A Snort for Business**—As a businessman, the average doctor is weak; he snorts at the idea that he should be better. As a scientist, it's his aim to get out from under the details of jangling telephones, stacked appointments, card index systems, bills, and collections. To help him escape, he hires a secretary, but he's often unwilling or unable to tell her how to run his office more smoothly. To advise him in his busi-

ness, a small corps of medical management consultants—only about 50 in the nation—has set up offices.

In the current prosperity, the doctor collects on his bills more frequently than ever before—85% of them are paid nowadays compared with only 70% during the Depression, according to the magazine Medical Economics. But the doctor still inflicts collection trouble on himself. Says one New York City medical management consultant, George W. Condit: "All too often the independent doctor is incapable of discussing fees with his patients. He gives them the old line: 'Now don't you worry about money. We'll get you well first and then we'll talk about fees.'"

• **Writing the Bills**—The doctor's whole fee structure is based on a complex and often obscure interrelationship of what the traffic will bear, the community's estimate of his ability, the level of his patients' incomes, and what his colleagues will permit.

Some specialists in narrow but delicate fields such as eye surgery have an arbitrary system of charging the patient the equivalent of one month's salary for an operation and treatment. Others soak the rich and keep the poor at bay so they can ensure themselves of time enough for research.

• **Those Tax Returns**—Death and taxes come to the doctor as to all others. The doctor's euphemism for death is "terminal illness." He has as many euphemisms for taxes as anyone else, though along with most other professional men, he cheats on his taxes more than the salaried worker. This, says the



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Internal Revenue Service, is a well-established fact.

But times are changing, and as the doctor becomes an increasingly specialized and scientific man, he reports his income more accurately. An IRS official explains: "There aren't many doctors who practice medicine the old way—taking a pill out of one pocket and stuffing a dollar bill into the other. Since he has stopped doing that he keeps his books more accurately."

Thus, even the insensitive tax collector senses the change that has swept through the medical profession. Now this change is beginning to put some pressure on one of the doctor's hallowed concepts, the complete independence of the independent doctor.

IV. An Organization Man?

Eight years ago, the Commerce Dept. estimated that some 5% of the nation's non-salaried doctors were working in group practices of three or more, splitting their joint profits among themselves in much the same way as partners in legal firms.

Today, Medical Economics magazine estimates, some 7% of nonsalaried doctors are linked in group practices. Most of the groups contain GPs, specialists in internal medicine, surgery, pediatrics, and obstetrics.

• **Spreading Trend**—Pushed by the sweeping specialization of the profession, this will become a growing trend, say some observers. This should be true in at least the nation's smaller cities. Only when a group moves in, splitting its profits, can many communities make it economically worthwhile for a specialist to practice there.

Both sides gain from the group arrangement. The doctors get a break because they can usually take the annual vacations that they frequently have to forego when working independently. And membership in a group generally boosts a doctor's income. The Commerce Dept., in its 1949 study, found doctors in three-man partnerships have incomes almost twice as large as those working independently. The patients get a break because a group with its array of specialties can give a community better care than it might otherwise get. Because by pooling their assets the doctors can afford more of the equipment they need.

• **Small but Significant**—The 7% of doctors in group practice is still a pretty small proportion—it represents only about 7,200 doctors in the whole nation. But the growth of group practice in the last few years is significant.

If it continues, it will take two decades or more to change the aspect of the medical profession. It will still be a long time before the doctor is as organized as any organization man. END

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Needed—A New Revolution in Detroit

What ails Detroit?

This question is being asked on all sides—in Wall Street, in Washington, in Detroit itself. For the giant automobile business, the symbol of American industrial enterprise, is suffering from stagnation, a stagnation that was evident even when the economy as a whole was booming.

Now, with the economy declining, Detroit's ailments have assumed even greater significance. The slowdown in car sales did not cause the recession, yet the automobile industry is so closely associated with the well-being of our economy that its decline has created widespread concern.

While Detroit is not the only troubled sector, its importance—and influence—are undeniable. Its production methods are often cited as a model. Its buying has an impact on everything from steel to textiles. Its prices affect the entire price structure, and the wage contracts it negotiates influence other wage settlements.

Moreover, Detroit has done much to transform American life. The first stage in the revolution was Henry Ford's use of mass production, which brought the functional Tin Lizzie within reach of almost every family. The second stage was General Motors' innovation of a yearly model changeover, which transformed a utilitarian product to a living room on wheels that became the ostensible symbol of American success.

The very success of its revolutionary concepts may be part of the trouble facing Detroit. For like other successful revolutions, its formulas have become hardened into dogma.

The entire industry is dominated by a few great firms that show signs of bureaucratic inflexibility. Here, too, Detroit is like other revolutions that have devoured their children. There have been 812 different makes of automobiles—only 17 are now being produced by five companies.

Detroit has a tremendous financial stake in its philosophy of bringing out the longer, lower, and more powerful creations it is convinced the public wants. It has maintained this formula despite the fact that people are not showing their old eagerness for its products. Today much of the social prestige traditionally associated with buying a new car has been passing to the owners of smaller, more simple European models.

Where Concentration Costs

One radical solution to Detroit's troubles has come from an auto maker, George Romney of American Motors Corp. (BW—Feb. 15 '58, p36). It is his view that today's concentration of power in Detroit is both inefficient and expensive. On one hand, it is preventing new firms from entering the business.

On the other, it is running up costs—because of the contracts made between big management and big labor. He proposes a split-up of the giant firms now in the business as well as a split-up of the United Auto Workers.

Romney's solution may be unworkable, yet it does emphasize that what ails Detroit may be more than a temporary or superficial matter like redesigning the new models or cutting costs.

We think it is healthy that Detroit itself is engaged in a searching self-examination. For Detroit has the power and the resources to find its own cure. If a new revolution is needed in the automobile industry, we are sure that Detroit will create one.

Diehards in Algeria

For a decade the United States has been engaged in the terribly difficult task of leading the Atlantic Alliance. Beyond providing our allies with military and economic aid, Washington has been involved in a constant effort to reconcile divergent interests within NATO and also between its members and third countries with which we must maintain friendly relations. To many Americans, this task has seemed at times pretty thankless—indeed, almost hopeless.

Now France, by committing a major blunder in North Africa, has rubbed it in again. The French Army's air attack on a Tunisian village near the Algerian border has put us in the middle—between the pro-Western premier of Tunisia and our NATO ally, France. Fortunately, both sides want to patch things up and have agreed that the U. S. and Britain should use their "good offices" toward a settlement.

But this settlement still leaves open the bigger problem of French policy in Algeria.

There is no denying that France faces a difficult situation in Algeria, where a large French community has lived for over a century. It is too much to expect Paris simply to abdicate. But if postwar developments in the ex-colonial world prove anything, they prove that a democracy cannot win the kind of military victory that France's military and political diehards seem to expect. At some stage there must be a political settlement that has, for Western public opinion, a stamp of equity about it.

Only the other day, in fact, the French government privately informed the U. S. that it was about to seek such a settlement. This was one of the assurances given to Washington during the negotiations that produced some much-needed financial assistance for Paris (BW—Feb. 8 '58, p120). Now, quite clearly, it is up to the Giscard government to deal with the bitter-enders both in the French army and within its own ranks.



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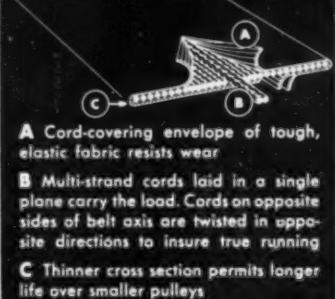
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HOW TO PUT THE OLD RED MILL "IN THE BLACK"

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